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Administrative Litigation Law Published
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[Text] Beijing, 9 Nov (XINHUA)—Administrative Litigation Law of the People's Republic of China (Draft)

Chapter I. General Provision

Article 1. On the basis of the Constitution, this law is enacted for the purpose of protecting the legitimate rights and interests of citizens and organizations, enabling the state administrative organs to exercise their administrative authority according to law, and ensuring the timely trial of administrative cases by the People's Court.

Article 2. Citizens and organizations have the right to file suits in the People's Court in accordance with the provisions of this law against specific administrative actions of administrative organs and personnel of administrative organs infringing on their legitimate rights and interests when exercising administrative authority.

Article 3. The People's Court shall exercise its power to try administrative cases independently and according to law without interference by any administrative organ, group, or individual.

The People's Court shall establish an Administrative Litigation Court to deal with administrative cases.

Article 4. In dealing with administrative cases, the People's Court shall base itself on facts and use the relevant law as the criterion.

The People's Court shall try administrative cases on the basis of the relevant law and regulations. If the regulations contradict the law, the law shall be used as a basis.

Article 5. In trying administrative cases, the People's Court shall carry out the system of rendering final judgment after two trials, the system of open trials, and the collegial and withdrawal systems.

Article 6. In administrative litigation, all parties involved are equal in legal status.

Article 7. The People's Procuratorate has the power to exercise legal supervision over administrative litigation.

Article 8. When a citizen or an organization fails to start administrative litigation within the legally prescribed period and refuses to carry out the decision of the administrative organ, the administrative organ may ask the People's Court to enforce implementation of the decision according to law.

Chapter II. Administrative Cases To Be Accepted by the People's Court

Article 9. The People's Court shall accept and deal with administrative cases which may be litigated by citizens and organizations as stipulated by the law.

In addition to the administrative cases specified in the preceding paragraph, the People's Court shall accept and deal with the following administrative cases:

(1) refusal to accept such administrative penalties as a fine of 50 yuan or more, revocation of licenses, withdrawal of permits, order for discontinuation of production and operations, and confiscation of illegal gains;

(2) refusal to accept compulsory administrative measures for deprivation and restriction of personal freedom;

(3) administrative actions infringing upon legal rights to contracted operations;

(4) cases in which legal requirements for issuance of permits or certificates are met, but the administrative organs concerned refuse to issue permits or certificates or deliberately delay issuance of permits or certificates without valid reason;

(5) administrative actions of personnel of administrative organs infringing on the legitimate rights and interests of citizens and organizations through abuse of official power at the time of carrying out duties.

Article 10. The People's Court shall deal with the following cases according to their specific situations:

(1) if the litigation is against the statutes and regulations enacted by an administrative organ or its decisions, resolutions, announcements, and orders having a general binding force, the litigant shall be advised to appeal to the next higher administrative organ above the one enacting the specific documents or to the Standing Committee of the People's Congress at the same level;

(2) if the case is to refuse acceptance of an administrative organ's treatment of a civil dispute, the litigant shall be advised to file a suit according to the procedures for civil litigation;

(3) if the case is to be handled by the Department of Supervision or personnel according to law, the litigant shall be advised to appeal to such department.

(4) If the final judgment is to be rendered by an administrative organ as stipulated by the law, the litigant shall be advised to appeal to the administrative organ making final judgment or to its next higher organ.

Article 11. A citizen or organization may file suit in the people's court for administrative cases for which the stipulations of this law apply. As for cases which are required by law or regulation to be submitted for reconsideration first, the party concerned may file a suit in the people's court if he does not agree with the decision made after reconsideration.

Article 12. On receipt of an application from a citizen or organization for reconsideration, the organ responsible for reconsidering the case shall reach a decision within 2 months of receipt of the application. If the applicant refuses to accept the decision reached after reconsideration, he may file suit in the people's court within 15 days of receiving notification of the decision. If the organ responsible for reconsidering the case fails to reach a decision within that period, the applicant may file suit in the people's court within 15 days after expiration of the reconsideration period.

The above time limits are valid, except as otherwise provided by law.

Article 13. A citizen or organization directly filing a suit in the people's courts shall do so within 3 months of being notified of the specific administrative action, except as otherwise provided by law.

Article 14. If a citizen or organization cannot meet the deadline for filing an administrative suit because of irresistible causes or other legitimate reasons, the people's court may extend the period for filing a suit.

Chapter III. Jurisdiction of the People's Court Over Administrative Cases

Article 15. The basic people's court have jurisdiction as courts of first instance, except as otherwise provided by this law.

Article 16. The intermediate people's courts have jurisdiction as courts of first instance over the following administrative cases:

- (1) cases for determining patent rights or involving customs organs; or
- (2) major, complex cases.

Article 17. An administrative case is under the jurisdiction of the people's court in the place where the appellee's residence is; the people's court in the place where the organ taking the original administrative action is located may also adjudicate cases that have been reconsidered, except as otherwise provided by this law.

Article 18. A suit involving violations of personal freedom and rights is under the jurisdiction of the people's courts where the suitor or appellee live.

Article 19. The people's court in the place where the immovable property is located has jurisdiction over a suit involving ownership or right of use over that immovable property.

Article 20. When necessary, people's courts at higher levels may adjudicate administrative cases over which people's courts at lower levels have jurisdiction as courts of first instance; they may also transfer administrative cases over which they themselves have jurisdiction as courts of first instance to people's courts at lower levels for adjudication.

People's courts at lower levels, when they consider an administrative case in the first instance to require adjudication by a people's court at a higher level, may request that the case be transferred to a people's court at the higher level.

Chapter IV. Participants in the Proceedings of an Administrative Case

Article 21. A citizen or organization which has filed an administrative suit in accordance with this law is the suitor.

If a citizen who has the right to file a suit is dead, his or her close relatives may file the suit.

If an organization which has the right to file a suit is divided or merged, the reorganized organization may file the suit.

Article 22. The appellee is the organ that has taken the specific administrative action which is being sued directly by a citizen or organization in the people's court.

For an administrative action which has been reconsidered, the organ reconsidering the case is the appellee.

An administrative organ which has authorized an organization or individual to implement specific administrative actions, that organ shall be the appellee.

Article 23. For an administrative organ which has been abolished or merged, the administrative organ taking over the abolished or merged organ's functions and powers shall be the appellee; if there is no organ to continue exercising that organ's functions and powers, the administrative organ making the decision to abolish that organ or an administrative organ designated by the administrative organ shall be the appellee.

Article 23. A citizen or organization whose interests are also affected by a specific administrative action may apply to take part in the proceedings; the people's court may also notify that citizen or organization to take part in the proceedings.

Article 24. Public organizations may institute administrative proceedings on behalf of their members.

Chapter V. Trials of Administrative Cases

Article 25. After a suit is started by the litigant and examined by the People's Court, the case shall be filed or a notification of nonacceptance of the suit shall be sent to the litigant within 5 days.

Article 26. Within 3 days after the case is filed, the People's Court shall send a copy of the bill of indictment to the indictee. Within 10 days after receipt of the copy of the bill of indictment, the indictee shall submit to the People's Court his defense, along with those materials on which the specific administrative action was based. The People's Court shall send a copy of the defense to the litigant within 3 days after its receipt.

Article 27. The specific administrative action shall not be discontinued during the period of litigation.

The People's Court may order the discontinuance of a specific administrative action based on the litigant's request, or if it deems that the specific administrative action will cause the litigant an irreparable loss and that the discontinuance of the administrative action will not be against the public interests of society.

Article 28. The People's Court shall open court sessions to hear administrative cases.

The People's Court may conduct trials in writing, if it deems that the facts involved in the case are clear.

Article 29. To hear administrative cases, the People's Court shall form a collegiate court composed of judges and accessors, or of judges alone. The collegiate court shall be composed of an odd number, and shall not be less than 3 persons.

Article 30. The People's Court shall not use the method of mediation in dealing with administrative cases.

Article 31. All parties involved in an administrative case have the obligation to provide evidence.

The indictee has the responsibility to provide evidence and must cite facts, laws, and regulations on which the specific administrative action was based.

Article 32. The People's Court has the authority to ask the indicted administrative organ and other related organizations and citizens to provide evidence.

If verification of the evidence is required by the People's Court, the verification given by the legal appraisal department shall be taken as the standard. If there is no legal appraisal department, the People's Court shall appoint someone to verify the evidence.

Article 33. If a person involved in the litigation or any other person disrupts the trial of a case, the People's Court may, according to the seriousness of disruption,

admonish that person, order him to make a statement of repentance, impose a fine of not more than 200 yuan, or detain him for not more than 15 days. The fine and detention must be approved by the president of the People's Court.

Article 34. If the litigant withdraws the suit before a decision is made by the People's Court, litigation shall end.

Article 35. Before a people's court pronounces its judgment on an administrative case, the defendant can revoke or change the specific administrative action. Litigation which the petitioner has agreed to cancel will be dropped. The People's Court shall hear litigation which the petitioner has not agreed to rescind.

Article 36. A people's court may pass the following judgments after adjudication, and according to different situations:

(1) if the specific administrative action is factual and clear, it shall use applicable laws and regulations to pronounce its judgment and uphold the decision of the administrative organ.

(2) if the main evidence of the specific administrative action is insufficient, if the applicable laws and regulations are erroneous, or if the specific administrative action has not been correctly made due to the violation of legal procedure, the people's court may rescind or partially rescind the action.

(3) if an administrative organ refuses to carry out the obligation it ought to, or has not carried out the obligation due to the expiration of the legal time limit, the People's Court may order it to fulfill the obligation within a certain period.

(4) the People's Court may change a administrative punishment which is either unusually light or heavy, and which has been impartial.

Article 37. If a people's court considers that personnel from a administrative organ has violated administrative discipline during the course of hearing the administrative case, it ought to forward the relevant materials to procuratorial organs after passing judgment; when it considers that a crime has been committed, it ought to forward relevant materials to public security and procuratorial organs.

Article 38. A people's court ought to pronounce its first judgment within 2 months of receiving the indictment. Significant and complicated cases may be extended another month.

Article 39. If the litigant refuses to accept the first judgment of a people's court, he or she has the right to appeal to a people's court at a higher level within 15 days of receiving the judgment. If no appeal is filed by the expiry date, the first judgment shall take legal effect.

Article 40. When a people's court conducts a second hearing for an administrative case, it ought to issue its final judgment within 1 month of receiving the appeal. Significant and complicated cases may be extended for another 15 days.

Article 41. When presidents of people's courts at various levels discover errors in the establishment of facts or applicable laws and regulations in decisions and rulings which have taken legal effect, they must refer them to a judicial committee for action.

When a people's court at higher level discovers errors in the decisions and rulings of a people's court at lower level which have taken legal effect, it has the authority to review the case or order the people's court at lower level to conduct a retrial.

People's courts at all levels must deal seriously and responsibly with appeals from litigants on judgments and rulings which have taken legal effect.

Chapter VI. Execution of Judgments on Administrative Cases

Article 42. Litigants must execute People's Court decisions which have taken legal effect.

When a petitioner does not carry out the court's decision by the expiry date, the people's court or the administrative organ shall enforce it in accordance with the law.

When a defendant does not carry out the court's decision by the expiry date, the people's court may resort to the following measures:

- (1) notify banks to transfer, from the defendant's account, fines which should be returned or compensation for damage and losses.
- (2) impose fines of between 50 yuan and 100 yuan per day.
- (3) circulate a notice to the defendant's higher administrative or a procuratorial organ; the higher administrative or procuratorial organ ought to, according to circumstances, mete out administrative punishment to the defendant's superiors and personnel directly responsible.
- (4) bring criminal charge against persons in charge and personnel directly responsible in accordance with the law, when the circumstances are serious enough to amount to a crime if they refuse to execute a judgment or change an administrative action violating the legal rights and interests of citizens and organizations.

Article 43. When the People's Court in its decision determines that the specific administrative action of an administrative organ or its personnel has violated the legal rights and interests of citizens and organizations, the said administrative organ shall assume responsibility.

The administrative organ shall assume responsibilities by method of paying compensation. After the administrative organ has assumed responsibility, it can order the persons who have deliberately taken the action or are guilty of grave negligence to shoulder part or the entire compensation responsibility.

Article 44. The principal methods for administrative organs to assume responsibilities include:

- (1) discontinuation of violations;
- (2) return of property;
- (3) restoration to original state;
- (4) compensation for losses;
- (5) rehabilitation of reputation;
- (6) apology.

The above methods may be applied singularly or in any combination.

Article 45. Compensation for the violation of a citizen's personal liberties will be computed at a certain amount of money for each day. For a citizen who has suffered bodily harm, compensation must be paid for medical fees and loss of income from inability to work. For a citizen who become crippled, living allowance must be provided. For violations causing a citizen's death, funeral and living expenses for his dependents must be paid.

Article 46. Compensation for losses caused by violation of property rights and interests of citizens and organizations shall be computed according to the actual losses. Original items which have been sealed, detained, and confiscated are to be returned if they still exist. Those which have been sold will be compensated according to the market price. If the market price is lower than the original purchase price, compensation will be based on the latter.

Article 47. Compensation expenses will be borne by the various levels. The specific plan will be formulated separately by the State Council.

Chapter VII. Supplementary Articles

Article 48. The People's Court shall charge litigation fees for hearing administrative cases. These fees shall be borne by the party losing the case. If both parties are responsible, both parties will bear the expenses. Charges for litigation fees will be drawn up the Supreme People's Court.

Article 49. Relevant laws and regulations for civil litigation shall apply for other matters not stipulated in this law. However, stipulations for procedures concerning reconciliation, countersuit, and simplification shall not apply.

Wildlife Protection Law

OW1311003888 Beijing XINHUA Domestic Service
in Chinese 1537 GMT 8 Nov 88

[Text] Beijing, 8 Nov (XINHUA)—Wildlife Protection Law of the People's Republic of China

Adopted by the Fourth Session of the Standing Committee of the Seventh National People's Congress on 8 November 1988

Chapter I. General Principles

Article 1: This law is formulated to protect and rescue precious and endangered wildlife; protect, develop, and make reasonable use of wildlife resources; and maintain an ecological balance.

Article 2: This law should be observed by all who are engaged in the protection, domestication for propagative purposes, development, and use of wildlife in the People's Republic of China.

Wildlife as stipulated in this protection law refers to precious and endangered wildlife on land and in water as well as wildlife on land which are beneficial or are of important economic and scientific research value.

Wildlife mentioned in all articles in this law refer to protected wildlife stipulated in the preceding paragraph.

The provisions of the Fishery Law shall be applicable in the case of protection of marine wildlife other than those defined as precious and endangered.

Article 3: Wildlife resources belong to the state.

The state protects the legal rights and interests of units and individuals that develop and make use of wildlife resources according to the law.

Article 4: The state implements the principle of strengthening the protection of wildlife resources, actively domesticating wildlife for propagative purposes, and developing and making reasonable use of wildlife, and encourages scientific research on wildlife.

The government shall award units and individuals who distinguish themselves in protecting wildlife, conducting scientific research on them, and domesticate them for propagative purposes.

Article 5: Citizens of the People's Republic of China have the obligation to protect wildlife resources, and to report and indict those who appropriate or destroy wildlife resources.

Article 6: Governments at all levels should strengthen the management over wildlife resources and formulate plans and measures for protecting, developing, and making reasonable use of these resources.

Article 7: Administrative departments in charge of forestry and fisheries under the State Council are responsible for the management of wildlife on land and in water, respectively, throughout China.

Administrative departments in charge of forestry under the provincial, autonomous regional, and municipal governments are responsible for the management of wildlife on land in their respective administrative regions. The provincial, autonomous regional, and municipal governments shall designate administrative departments to be in charge of the management of wildlife on land for autonomous prefectures, counties, and cities.

Administrative departments in charge of fisheries under local governments at and above the county level are responsible for the management of marine wildlife in their respective administrative regions.

Chapter II. Protection of Wildlife

Article 8: The state protects wildlife and their habitats and forbids poaching or killing by any unit or individual.

Article 9: The state provides protection for precious and endangered wildlife on a selective basis. Wildlife selected for protection by the state are divided into wildlife under Class 1 and Class 2 protection. The administrative departments in charge of wildlife under the State Council shall prepare a list of wildlife selected by the state for protection, make necessary readjustments to the list, and submit the list to the State Council for approval and promulgation.

Wildlife selected by the localities for protection refer to those selected for protection by provinces, autonomous regions, and municipalities, other than those selected by the state for protection. The list of wildlife selected by the localities for protection shall be formulated and promulgated by the provincial, autonomous regional, and municipal governments, and shall be submitted to the State Council for the record.

A list of state-protected terrestrial animals that are either beneficial or of important economic or scientific research value shall be prepared and published by the State Council department in charge of wildlife management.

Article 10: The State Council department in charge of wildlife management and the various provincial, autonomous regional, and municipal governments should designate land or water areas as natural preserves on wildlife breeding grounds located in state or local wildlife protection areas.

The designation and management of natural preserves shall be carried out in accordance with relevant State Council regulations.

Article 11: Departments in charge of wildlife management at all levels should keep a watch on and monitor the impact of the environment on wildlife. When wildlife are threatened by their environment, departments in charge of wildlife management should coordinate with other departments concerned to conduct surveys and handle the problem.

Article 12: If a construction project threatens the environment of wildlife, the construction unit should submit a report on the environmental impact of the project. When examining and approving a construction project, the environmental protection agency should solicit views from the corresponding wildlife management department.

Article 13: When important wildlife under state or local protection are threatened by natural disasters, local governments should promptly take action to rescue them.

Article 14: Local governments are responsible for compensating for crop or property losses caused by protective measures taken for important wildlife under state or local protection. Compensation measures should be worked out by the provincial, autonomous regional, and municipal governments.

Chapter III. Wildlife Management

Article 15: Departments in charge of wildlife management should make periodic checks and establish records on wildlife resources.

Article 16: Hunting, trapping, and killing important wildlife protected by the state are strictly banned. If, for purposes of scientific research, domestication, breeding, and exhibition or other special purposes, wildlife under Class 1 protection of the state must be captured, a special hunting license must first be obtained from the State Council department in charge of wildlife management.

When hunting or capturing wildlife under Class 2 protection of the state, a special permit for hunting or trapping must be obtained from the provincial, autonomous regional, or municipal department in charge of wildlife management.

Article 17: The state encourages wildlife domestication and breeding.

Domesticators and breeders of wildlife under state protection must hold a special license. Measures for license control shall be worked out by the State Council department in charge of wildlife management.

Article 18: Hunters and trappers of wildlife not included under state protection must hold hunting and trapping licenses and must abide by the hunting or trapping limits.

Hunters using guns must hold firearms permits issued by the county or city public security organs.

Article 19: Hunters and trappers of wildlife must abide by the rules contained in their special hunting licenses or by hunting licenses regarding the type and quantity of wildlife to be hunted or captured, as well as ruled on the locations and times for hunting.

Article 20: Hunting, trapping, and other activities endangering the lives and propagation of wildlife are strictly banned in natural preserves and in hunting prohibited areas, as well as during seasons when hunting and trapping are prohibited.

Regulations regarding the areas, times, equipment, and methods used for hunting shall be formulated by governments at and above the county level or by the local departments in charge of wildlife management.

Article 21: Hunting with military weapons, poisons, or explosives is strictly banned.

Regulations for the production, sales, and use of hunting guns and ammunition shall be formulated by the State Council department in charge of forestry management in coordination with public security departments concerned, and should be submitted to the State Council for approval.

Article 22: It is forbidden to sell or purchase major state protected wildlife or their byproducts. If, for the purpose of scientific research, domestication for propagation, exhibition, or other special purposes, it is necessary to sell, purchase, or make use of wildlife or their byproducts which fall under Class 1 protection of the state, approval should be obtained from the administrative departments in charge of wildlife under the State Council or units authorized by them. If it is necessary to sell, purchase, or make use of wildlife or their byproducts which fall under Class 2 protection of the state, approval should be

obtained from the administrative departments in charge of wildlife under the provincial, autonomous regional, or municipal governments, or units authorized by them.

Units or individuals that domesticate major state protected wildlife for propagation must show the permits for domestication and propagation to government designated purchasing units, and must sell major state protected wildlife or their byproducts as stipulated.

Industrial and commercial administration departments should supervise and manage wildlife or their byproducts on sale in the market.

Article 23: To transport and carry major state protected wildlife or their byproducts out of a county, approval should be obtained from the administrative departments in charge of wildlife under the provincial, autonomous regional, or municipal governments or units authorized by them.

Article 24: To export major state protected wildlife or their byproducts, or to import or export wildlife or their byproducts whose import and export are restricted by international conventions to which China is a signatory, approval should be obtained from the administrative departments in charge of wildlife or from the State Council. Import - export permits should be obtained from state agencies in charge of the import and export of endangered species. Based on these permits, Customs shall conduct examinations and give permission to clear Customs.

Export of wildlife species that involve confidential materials in science and technology shall be handled according to relevant regulations of the State Council.

Article 25: Forgery, speculation, or transfer of special hunting permits, hunters' licenses, breeding and propagation permits, or import-export permits are forbidden.

Article 26: Foreigners wishing to conduct field surveys on major state protected wildlife or to shoot films or video movies about these wildlife in China should obtain approval from the administrative departments in charge of wildlife under the State Council or units authorized by them.

In designating hunting grounds open to foreigners, approval should be obtained from the administrative departments in charge of wildlife under the State Council.

Article 27: Those who deals in wildlife or their byproducts should pay the wildlife resources management fee. The amount of the fee and the methods for collecting it shall be formulated by the administrative departments in charge of wildlife under the State Council in coordination with the finance and price departments, and shall be submitted to the State Council for approval and promulgation.

Article 28: If damage to crops or other losses are incurred as a result of game hunting, the hunters shall be held responsible for making compensation.

Article 29: Local governments concerned should take measures to prevent and control damage done by wildlife, and ensure human and livestock safety as well as that of agricultural production and forestry.

Article 30: Standing committees of the provincial, autonomous regional, and municipal people's congresses shall draw up the measures for the control of major locally protected wildlife and other wildlife not designated by the state for protection.

Chapter IV. Legal Responsibilities

Article 31: Those who illegally hunt and kill major state protected wildlife shall be investigated for their criminal responsibilities according to the supplementary regulations for punishing criminals who hunt and kill precious and endangered wildlife designated by the state for protection.

Article 32: Whoever violates the provisions in this law, hunting in an area where hunting is prohibited or during a period when hunting is prohibited, or using prohibited implements and methods for hunting, shall have the hunted game, hunting implements, and illegal income confiscated and shall be fined by the administrative departments in charge of wildlife. If the circumstances are serious enough to constitute a crime, the provisions of Article 130 of the Criminal Law shall be applied in determining the criminal responsibilities.

Article 33: Violators of this law who hunt without a hunting license or break rules in their hunting licenses shall have their take, illegal income, and hunting equipment confiscated; be fined; and have their hunting licenses revoked by departments in charge of wildlife management.

Violators of this law who hunt with guns without having a gun permit shall be punished by the public security organ according to the regulations governing public security.

Article 34: Violators of this law who destroy important grounds in natural preserves or in hunting prohibited areas where wildlife under state or local protection breed and multiply shall be ordered to stop their acts of destruction and restore the breeding grounds to their original state and shall be fined by the department in charge of wildlife management.

Article 35: Violators of this law who sell, buy, transport, or carry wildlife or their byproducts which are under state or local protection shall have their goods confiscated and may also be fined by industrial and commercial administration departments.

Violators of this law who buy or sell wildlife or their byproducts which are under state protection for speculation, profiteering, or smuggling shall be investigated for criminal charges in accordance with the criminal law.

The confiscated materials shall be disposed of by departments in charge of wildlife management or by units entrusted by these departments according to relevant regulations.

Article 36: Illegal importers and exporters of wildlife or their byproducts shall be punished by the customs houses according to the customs law. Serious cases shall be investigated for smuggling charges according to the criminal law.

Article 37: Forgers, sellers, and transferers of special hunting licenses, regular hunting licenses, or wildlife domestication and breeding licenses shall have their licenses revoked, their illegal income confiscated, and may be fined as well by the wildlife management departments or industrial and commercial administrations.

Serious criminal cases of forgery of or profiteering in special hunting licenses or import and export certificates shall be investigated and dealt with according to the stipulations of Article 167 of the Criminal Law.

Article 38: When personnel working in departments in charge of wildlife management neglect their duties, abuse their power, or engage in fraudulent practices, they shall be given administrative punishment by their own units or by a superior organ. Serious cases should be investigated for criminal charges.

Article 39: When a party does not agree with the administrative penalty, the party may appeal to the organ immediately superior to the organ which made the penalty decision, within 15 days of the penalty notification. If a party does not agree with the decision made by the organ which handles the appeal, the party may bring a suit against the organ which hands down the administrative penalty, within 15 days of the appeal decision. The party may also directly bring a suit in court against the organ which makes the penalty decision, within 15 days of the penalty decision. If a party fails to appeal, bring a lawsuit in court, or fulfill the penalty decision within the prescribed time limit, the organ that made the penalty decision may request the court to enforce the penalty decision.

If a party disagrees with the penalty handed down by customs or the public security organs, the case shall be dealt with in accordance with the customs law or the regulations governing public security.

Chapter V. Supplementary Provisions

Article 40: In the case of differences between these regulations and international conventions related to wildlife protection signed by or participated in by the

PRC, the international laws shall apply, with exception of stipulations reserved by the PRC in statements.

Article 41: The State Council department in charge of wildlife management shall formulate implementation regulations in accordance with this law and submit the same to the State Council for approval.

The provincial, autonomous regional, and municipal people's congress standing committees may formulate implementation regulations in accordance with this law.

Article 42: This law comes into effect as of 1 March 1989.

Appendix: Provisions of Related Laws

1. Relevant Provisions of the Criminal Law:

Article 116 of the "Criminal Law": Whoever violates the customs laws and regulations by engaging in smuggling, if the circumstances are serious, in addition to having the smuggled articles confiscated and a fine possibly imposed in accordance with the customs laws and regulations, is to be sentenced to not more than 3 years of fixed term imprisonment or criminal detention, and may in addition be sentenced to confiscation of property.

Article 117 of the "Criminal Law": Whoever violates the laws and regulations on the control of monetary affairs, foreign exchange, gold and silver, or industrial and commercial affairs by engaging in speculation, if the circumstances are serious, is to be sentenced to not more than 3 years of fixed term imprisonment or criminal detention, and may, in addition or exclusively, be sentenced to a fine or confiscation of property.

Article 118 of the "Criminal Law": Whoever makes a regular occupation of smuggling or speculation, or who smuggles or speculates in huge amounts, or who is ringleader of a group that smuggles or speculates, is to be sentenced to not less than 3 years and not more than 10 years of fixed term imprisonment, and may, in addition, be sentenced to confiscation of property.

Article 130 of the "Criminal Law": Whoever violates the hunting laws and regulations, hunting in an area where hunting is prohibited or during a period when hunting is prohibited, or using prohibited implements or methods for hunting, damaging rare birds, beasts or other wild animal resources, if the circumstances are serious, is to be sentenced to not more than 2 years of fixed term imprisonment, criminal detention, or a fine.

Article 167 of the "Criminal Law": Whoever forges, alters, or steals, forcibly seizes, or destroys official documents, certificates, or seals of state organs, enterprises, institutions or people's organizations is to be sentenced

to not more than 3 years of fixed term imprisonment, criminal detention, control or deprivation of political rights. If the circumstances are serious, the sentence is to be not less than 3 years and not more than 10 years of fixed term imprisonment.

Article 1 of the "Decision of the Standing Committee of the National People's Congress Regarding the Severe Punishment of Criminals Who Seriously Undermine the Economy": The following supplementations and revisions are to be made to the relevant provisions of the Criminal Law:

A. With respect to the crimes of seeking exorbitant profits through smuggling, speculative arbitrage, and speculation, as set out in Article 118 of the Criminal Law, the crime of theft in Article 152, the crime of the sale of narcotics in Article 171, and the crime of stealing and exporting precious cultural relics in Article 173, their sentencing is respectively supplemented or revised as follows: If the circumstances are particularly serious, the sentence is to be not less than 10 years of fixed term imprisonment, life imprisonment or death, and the offender may in addition be sentenced to confiscation of property.

Article 2 of the "Supplementary Regulations of the Standing Committee of the National People's Congress on Punishing the Crime of Smuggling": Whoever smuggles cultural relics, precious animals or their byproducts, gold, silver or other precious metals which are prohibited by the state for exportation, is to be sentenced to not less than 5 years of fixed term imprisonment, and may in addition be sentenced to a fine or confiscation of property. If the circumstances are particularly serious, the offender is to be sentenced to life imprisonment or death, and may in addition be sentenced to confiscation of property. If the circumstances are less severe, the offender is to be sentenced to not more than 5 years of fixed term imprisonment, and may, in addition, be imposed a fine.

2. Relevant Regulations of the "Customs Law":

Article 47: Any of the following acts of escaping customs supervision and control constitutes the crime of smuggling:

A. Transporting, hand carrying or mailing narcotics, weapons, counterfeit currencies prohibited by the state from import and export; transporting, hand carrying, or mailing pornographic materials into and out of China for the purpose of making profits and propagation; or transporting, hand carrying, or mailing cultural relics prohibited by the state from export;

B. Transporting, hand carrying, or mailing into and out of China, for the purpose of making profits, fairly large quantities of materials which are not listed in the preceding section but are prohibited by the state from import and export, as well as freight and articles which are restricted by the state from import and export, or are subject to customs duties;

Article 48: Those who commit any of the acts listed in Sections A and B of Article 47 of this law, provided the quantities of the smuggled freight and articles are not too large or that the act of hand carrying or mailing pornographic materials into and out of China does not constitute the crime of smuggling, shall have their freight, articles, and illegal income confiscated by Customs, and may in addition be imposed a fine.

3. Related provisions of the "Regulations on Penalties for Offenses in Violation of Security":

Article 20: Whoever commits any of the following acts that impair public security shall be detained for not more than 15 days, imposed a fine of not more than 200 yuan, or given a warning:

A. Illegally hand carrying and keeping guns and munitions, or other acts that violate the gun control regulations but that have not yet constituted offenses that deserve criminal penalties;

NATIONAL AFFAIRS, POLICY

Vice-Minister on Need To Stabilize Market Situation in 1989

40060140 Shanghai SHIJIE JINGJI DAOBAO in Chinese 31 Oct 88 p 2

[Text] Beijing—Next year, the economy is expected to grow at a fairly normal rate, and the overheated economy, inflation, and price surges will turn around slowly, but the grim market situation cannot be reversed completely, and we must be on the alert and try every possible means to have sufficient stock on hand for the year-end and the new year, striving to avoid a recurrence of panic buying in the future.

This is what the reporters have learned earlier from Vice Minister Zhang Shiyao of the Ministry of Commerce, as he made his forecast about next year's market situation at the special topic seminar on thorough price and wage reforms hosted by the Chinese People's Political Consultative Conference.

He said briefly that so far this year, markets in the nation's cities and towns have been active and thriving, and the sale of all goods have been brisk. However, there have been incidents of varying degrees of panic buying everywhere, and the market has given rise to a surge in the total sale of goods. It is estimated that the cash receipt of people in cities and towns will top more than 900 billion yuan this year, about 20 percent more than last year, and the year's total retail sale of social products will exceed 720 billion yuan, 25 percent more than last year. Two, market supply has been tight; the widespread shortage of goods has exacerbated it. Based on the Ministry of Commerce's ranking of supply-demand conditions of major industrial products and agricultural and sideline products, demand exceeds supply in 43 percent of the 482 categories of industrial goods, and 39 percent of the 139 categories of agricultural and sideline products are in short supply. Three, the market has been plagued by rapidly rising prices. For the first nine months, the average retail price index for society as a whole is about 16 percent higher than last year's; the cost-of-living index of workers in 32 large and mid-sized cities has risen 18.3 percent. Four, there have been continuous outbreaks of panic buying everywhere. Between February and September of this year, there have been four incidents of fairly concentrated panic buying in regions across the nation. Even some of the higher price, lower quality staple goods have become hot-selling items. The most recent incident was the most severe and widespread, and it was accompanied by a run on banks.

These phenomena are the centralized reaction to some of the problems which have accumulated in the economy in recent years. Although each round of panic buying had its direct causes, the most basic underlying factor was the overheated economy and the excess in demand in society. Although the Ministry of Commerce had predicted

and prepared for the instability in the market early this year, it had underestimated the abrupt outbreak of panic buying and had inadequate contingency measures to handle the situation. At the same time, there was a sense of helplessness amid the devolution of power; thus, the government has been relatively passive.

According to Zhang Shiyao, the main problems which have caused the less than optimistic market outlook for next year are: 1. City and town residents still have considerable cash on hand and purchasing power in the current year. It is estimated that the balance of purchasing power in the hands of the citizens will exceed 520 billion yuan by the end of the year, an increase of more than 100 billion yuan over last year. 2. This year's availability of social products is clearly limited. It is estimated that next year's rate of industrial growth will slow from this year's estimated 17 percent to around 10 percent. The effective supply of market goods will continue to be tight. 3. Inventory of goods on hand in the state-run businesses and supply and marketing cooperatives is running low, leaving little room for maneuvering in the market. Up to September, the total stock of goods in the Ministry of Commerce system was four percent below last year's after adjusting for the higher prices. Stock is running particularly low on some daily necessities and hot-selling staple goods. Figures show that the ratio of goods on hand to currency in circulation has dropped to 1:1.

As a result, in making market plans for this winter and next year, the Ministry of Commerce has adopted a guiding ideology to "restore order in effective supply, stabilize the overall market situation, and provide a better market environment for thorough reform and economic development." To strengthen macroeconomic control and regulation primarily means adherence to the principle of "enliven but restrain, decontrol but manage." With respect to circulation, we should further establish and amplify separate market control systems at the central level as well as the provincial and municipal level. To stabilize the overall market situation, we must adopt effective measures to ensure that there will be no major problem with the supply of grain, cotton, oil, "the bread basket," crucial daily necessities, and goods and materials for agricultural use. This high-ranking official from the Ministry of Commerce has indicated that "if these major commodities are stabilized, the overall market situation will be stabilized."

Measures for stabilizing the market include: strengthening the management of grain, stabilizing the grain market, sparing no effort on purchasing and stockpiling the autumn grain, guaranteeing the fixed quota contract purchases, tightly controlling and reducing the sale of parity price grain; taking utmost care in setting up the allocation and transfer, regulation, and transportation of grain; and limiting exports. We must pay special attention to the "bread basket" and the supply of certain vegetables, pork, and sugar in key locations, as well as clothing and other apparel—the State Council has

decided to reduce next year's cotton export by 4 million dan. We must also pay attention to the daily goods and large durable consumption goods which can take more currency out of circulation, and emphasize businesses which specialize in chemical fertilizers, pesticides, and other important agricultural means of production.

Finally, Zhang Shiyao said emphatically that to put everything in order, we need thorough commercial reform and gradually establish a new order of socialist commodity circulation. In particular, we must seize those reform measures which have major impact on restoring order in circulation and stabilizing market prices. These may include reducing the links in circulation, lowering the transaction costs, enhancing macroeconomic control and regulation in the market, finding ways to minimize the defects of double-track pricing, perfecting the enterprise leasing system and contract system, developing conglomerates and other forms of integrated operation, and we should gradually set up wholesale markets and futures market where there are arms-length transactions and fair competition, and steadily test the stockholding system and the public sale of small state-run enterprises in the experimental units.

Economists Urge Stricter Economic Reform Measures

OW1011044588 Beijing XINHUA in English
0712 GMT 8 Nov 88

[Text] Beijing, November 8 (XINHUA)—Chinese economists urged the central government to take stricter measures to ensure the state's overall control of prices, wages, and taxes in a bid to overcome the country's growing inflation and excessive rapid economic growth.

The measures should include a variety of means—economic, legislative, administrative and disciplinary, today's CHINA DAILY quoted Ma Hong, a prominent Chinese economist, as saying at an international seminar on China's economic reform which is still in session in the Shenzhen Economic Zone.

The week-long seminar will examine economic reform in China from 1979 to 1988, which is regarded as the first phase of the nationwide reform program.

Nearly 170 economists and entrepreneurs from 15 countries and regions including the United States, Japan, Britain, the Soviet Union, and Hong Kong attended the meeting, the paper reported.

Ma predicted that the framework of a new economic system could be established by the mid-1990s.

"This is longer than we had expected. And the country is facing more difficulties than at any time during the past decade," said Ma, who is also director general of the Research Center for Economic, Technological and Social Development under the State Council.

In the next few years, he said, priority will be given to reforming the price system, which is the crux to success of the reform as a whole.

Tong Dalin, director general of the Chinese Society for Research on Restructuring the Economic System, said most of the problems that have emerged in the economy have occurred in the commercial sector.

"We must pay full attention to the important role of an organized market," [words indistinct].

Tong noted that history had disproved the validity of some ideas about socialism held by the founders of Marxism, such as that there would be no commodities, no money or no market relations in a socialist society.

Stalin's model of the system of ownership over the means of production has also been proved incorrect on the light of basic Marxist theory, he added.

To avoid going astray in the economic reform and modernization drive, he said, China should reevaluate and study new phenomena and characteristics of contemporary capitalism while pursuing a new development of socialism in China.

Academicians on Market Development Difficulties, Suggestions

40060087 Beijing JINGJIXUE ZHOUBAO
[ECONOMICS WEEKLY] in Chinese 16 Oct 88 p 3

[Article by Liu Rongcang 0491 3310 3318, Song Ze 1245 0463, and Fang Hanting 2075 3352 1694, Chinese Academy of Social Sciences Finance and Trade Institute: "The Present State of China's Market Development, Difficulties and Countermeasures; Breaking Through the Deadlock Between the New and Old Mechanisms"]

[Text] Introducing a market mechanism and cultivating a market system compatible with socialist public ownership is the theme of the 10 year reform. Administrative mechanism and market mechanism, after restraining and yielding to each other, have now reached a deadlock, causing the mechanism changeover to be obstructed and dissipated by a multitude of unorganized forces. Therefore, squarely facing the present situation of market development and seeking countermeasures for effecting a radical cure has become the main task of the deepening of reform.

I. The Present State of Market Development

Due to the effects of various non-market factors, China's market development is in a malignant state of disorder which is specifically manifested as follows:

A. Various chaotic market activities are confused and deadlocked, which is detrimental to the normal development of the market. State-run businesses and goods and materials enterprises hold a large amount of working

capital and fixed assets, but it is very difficult to achieve scale operations and regulate the market. It is impossible either to guide demand in a timely manner or to induce supply, aggravating structural imbalance and shortages in the market's total effective supply volume. There is a rise in illegal transactions and various forms of cheating in the free market. The "grey market" is unusually active, and its mainstay of supply and demand reciprocally release resources in short supply to satisfy their own desire for money and material goods.

B. Excessive penetration by interpersonal connections and excessive development of interpersonal organizations, and unclear identification of the main body of the market. Most of the numerous companies currently active in the market are irregular market organizations which rely on various "connections" to unite with one another, and use their various privileges and connections to buy and resell at a profit commodities in great demand in the state plan, gobble up state assets, and rob consumers.

C. The influence peddling craze has led to the occurrence of many incidences of bribery in the operation of the economy. Because of the laxity of administrative control and the imperfect functioning of the market mechanism, a juncture has been provided for bringing about two-way penetration between various market forces and administrative forces. Status privileges and professional privileges have one after another become tradable objects, and the market, amid the commercialization of power, gradually displays a trend toward "lubrication" by bribery. Without bribery, "man-made bottlenecks" are liable to appear in many links in the operation of the economy.

D. The function mechanisms of market parameters are each different from one another, the general economic level is unstable, and the various markets hinder each other's development. The various market parameters, such as price, wages, and interest, should, of course, be formed naturally from the market, but China's present market parameters are controlled by different mechanisms. There are planned list prices and free market prices, as well as "grey market" prices (with sales commissions added) and bribery prices; and there is both the free income system of the individual economy and private economy and a wage system prescribed by the administration. The confusion and mutual hindering of market parameters prevents the deepening of market development.

II. Market Development Difficulties

The first difficulty is the vagueness of the main line of reform. China's economic system has lacked, from beginning to end, a clear and definite main line. The previous period's "crossing a river by touching stones" and the appearance and premature advance of various individual measures have often become factors which have both promoted and hindered market development. Through theoretical debate, the idea of two main lines

for price reform and enterprise reform has basically been formed, and policy has begun to sway in compliance with this, by implementing enterprise contracting and demanding a strict guarantee of the base figure, while price reform is implemented without taking into consideration enterprise bearing capacity. This kind of multiple main line theory is actually a "no main line theory," and inevitably leads to collisions in the development of various parts of the market.

The second difficulty is the noneconomic rigidity of benefits adjustment. The market mechanism is a mechanism which gives priority to efficiency, and market development inevitably requires generalized integration throughout society between commodities and money, the elimination of "distribution outside the market" and "transactions outside the market," and readjustment of the benefits distribution setup. However, since the administrative orientation and level-by-level distribution of the "government standard" economic system still exist, the market mechanism's adjustment of benefits is inevitably limited in various ways by noneconomic rigidity, causing market development to stop short of infringing on vested interests, so that only a limited commodity economy can be formed.

The third difficulty is the undeveloped nature of the market organization. In China's market development, organization resources are extremely unitary; particularly in the case of administrative market organizations, there is little independence and much dependence, rank determination and rank assignment are extremely strict, while property rights relations are very vague. Since reform, market competition has developed basically in accordance with the original identities and behavior standards, and each competitor has an extra-economic background; they are by no means market main bodies at the same starting point. Therefore, an administrative intensification running counter to market development has emerged in economic life, and enterprises advancing toward the market are, through various "links of dependence," returned to the government's leading relevant departments at the central level, further transforming "government-run commerce" into "government profiteering."

The fourth difficulty is the unsoundness of market regulations. Our reform is implemented under conditions of unsound laws and regulations, and particularly under conditions of ineffective implementation, and lacks systematic and operational binding force over market organizations and non-market organizations, with the result that interpersonal distribution, bribery "lubrication" and the like take advantage of the opportunity to enter, and the operation of the economy displays a morbid prosperity.

The fifth difficulty is that the development of the segmented market is out of sync. The basic prerequisite for the market mechanism playing its role normally and

effectively is the soundness of the whole market function, but this, too, must be the product of the perfection and coordinated effect of the various segmented markets. Starting from China's reality, of the development of the various segmented markets, the labor market is the least mature, and it still has a series of theoretical and practical difficulties. However, the reality of reform and development is also most urgent for the development and perfection of the labor market. Unless the wage mechanism is straightened out, no price mechanism can be formed, either; and without flow of labor, it will be hard to achieve improved composition and structural adjustment of enterprises. How to overcome the contradiction between need and reality is the basis of whole market development.

III. Market Development Countermeasures

We believe that in getting out of the current market disorder, we should start primarily from the following aspects:

First, clarify the main line of reform of conversion to a market mechanism. The direction determined by the main line is, with the market as the nucleus, deepening the link between commodities and money, and forming a unified regulation; its goal is a market economy system based on market mechanism. Only by introducing production relations and production force into the market economy system can the whole function of the market be brought into play. The main line of reform of conversion to a market mechanism includes the following: the growth of market mainstays having symbiotic relationships, development of a market system, perfecting market parameters, and the formation of indirect macrocontrol capability. Clearly, price reform and enterprise reform are just two aspects of the reform of conversion to a market mechanism, and regardless of which of these change, they must be subordinated to the main line of reform of conversion to a market mechanism and must be advantageous to the overall growth of market relations; any price or enterprise reform which runs contrary to the main line of conversion to a market mechanism can only obstruct market development, rather than speed up market growth.

The second countermeasure is perfecting market regulation, spurring improvement of the market form and standardization of market mainstay behavior. This includes, through systematic market regulation, establishing a complete, clear legal system protecting property rights, forming a private sector-standard basis for a market economy; clarifying market boundaries, strictly prohibiting mutual penetration by power and market elements, keeping irregular market organizations out of the operation of the economy, legally limiting currency issuing authority and public policy, and strictly preventing excessively numerous random elements of the government from interfering in the market. Operational

market regulations primarily establish and perfect commercial laws and regulations, ensure equality of market competition, restrict harmful supply and demand, and ensure the soundness of market development.

The third countermeasure is to omnipositionally change the function mechanism of market parameters. Only if the formation mechanism and function mechanism of market parameters are determined by the market can they become function signals of market mechanism. This requires placing the focus of the reform of price, wages, and interest on decontrol rather than on regulation. Only by relaxing administrative restraint on market parameters can the degree of shortage or excess of goods or services really be reflected, and only this is advantageous to the omnipositional flow of factors. Prices, wages, and interest are all interconnected, and if one of them is fixed, the other two cannot play their roles. Therefore, we not only recognize that prices and wages should both be decontrolled and reformed, we also recognize that interest on savings and loans should also be decontrolled, allowing the operation of the economy to make an overall shift to market mechanism regulation, overcome the lack of synchronicity of the development of segmented markets, and actively foster and bring into play the whole function of the market.

'Necessary Conditions' for Export-Oriented Economy

HK2112030988 Beijing JINGJI YANJIU in Chinese
No 10, 20 Oct 88 pp 54-59

[Article by Jin Xiangrong 6855 4382 2837, Department of Economics, Hangzhou University in July 1988: "Necessary Conditions for the Development of an Export-Oriented Economy"]

[Text] Import substitution is one of China's major strategies in its present development of foreign economic relations. It is not suitable to be taken as a long-term development strategy for China's development of foreign economic relations. At the present stage, we should create the conditions for switching to the trend of developing an export-oriented economy by gradually establishing or readjusting the foundation and structure of import substitution industries.

I. Domestic-Oriented Economy is the Necessary Stage for Starting the Development, Export-Oriented Economy Is a Factor for the Growth of Modern Economic Growth

What kind of trade strategy can help the economy of developing countries to achieve a rapid and stable growth, and help it tap the potential of industries? This issue should be dealt with mainly in two aspects: The first one is about the internal economic conditions in these countries; and the second one is about the international economic environment faced by these countries. The criterion of selecting a strategy is to judge the

economic cost and results of those available trade strategies. After the WWII, most of the developing countries chose the pattern of promoting their internal economic development, and practiced industrialization of import substitution industries under their government protection. Such a situation was objectively inevitable in the then international political and economic environment. First, if the developing countries continued to follow, in the turbulent period before and after the WWII the trade pattern adopted in the 19th century, and to export primary products while importing finished ones, they would not help promote their economic development. The solution is to actively develop their own national industries, and to practice a high degree of protectionism for the newly developed import substitution industries. Second, the economic system that the developing countries are specialized in making primary products and the developed countries are specialized in producing finished industrial goods is related to the history of colonization. Being politically independent, the developing countries must utilize through trade protectionism the strength of their governments to achieve their economic development, and safeguard their result of political independence, by means of eliminating interferences which may undermine their external economic strength. These countries should develop the import substitution industries, and eventually put an end to the situation where their industrial imports depend highly on the developed countries. Third, the domestic-oriented development of import substitution (primary import substitution) or industrialization at the initial stage is the force that develops extensively and intensively our industrialization, and is a necessary period for making preparations for developing an export-oriented economy.

Between the end of 1950's and the beginning of 1960's, the pattern of international economic development experienced great changes. First, the industrial development in capitalist developed countries in the West entered the stage of capital- and technology-intensive production. In the wake of capital accumulation and technological advancement, the supply of non-skilled laborers became highly insufficient, which raised the wages of departments and trades that were in need of non-skilled laborers. This put the developed countries, in which the labor-intensive industries needed non-skilled laborers in large quantity, in an unfavorable position, and a readjustment of industrial structure was thus necessary in order to transfer those labor-intensive industries to the developing countries and regions. Second, the industrial production of capitalist developed countries was so rapid that the life cycle of equipment was shortened, the employment situation was improved in general, the wages continued to rise, so that the volume of international trade sharply increased. Various major capitalist industrialized countries protected their

own interests relating to trade, while generally advocating the "liberalization of trade," in order to encourage export and promote a steady economic growth. Moreover, the establishment of international organizations such as IMF and GATT played an important role in improving the international economic order, so that the world could enjoy for some 20 years a rather free environment in terms of international trade. Third, a huge amount of surplus capital developed in the wake of the development of restoration in the western industrial countries after the WWII. In order to strive for maximum profits, they often exported their capital in such forms as "aids," loans and direct investment. By 1961, the sum of capital exported by the capitalist developed countries totalled \$140 billion, or 2 times over the pre-war figure.

Facing such a great change in the international economic situation, the developing countries came to their crossroads on their road to industrialization. After experiencing the import substitution of consumer goods at the initial stage, most of them selected the high-class import substitution, that is to take the development of a domestic-oriented economy as a strategy for further promoting their industrialization. Only some developing countries and regions such as South Korea, Taiwan province, Hong kong, Singapore and Brazil (hereinafter referred to as the "newly industrialized countries and regions") took quick reactions to such change in the international economic situation. Making use of this opportunity, they took over the market of labor-intensive products previously occupied by the industrially developed countries. By taking the already established labor-intensive import substitution industries as their foundation, utilizing the capital, technology and equipment exported by the West, and giving play to their advantage of cheap labor, they produced a large quantity of labor-intensive but cheap products, and successfully made their way into the western market. To switch from the strategy of import substitution or domestic-oriented economy to the export-oriented strategy or export-oriented economy, and to develop the manufacturing industries on the basis of light and textile industries, brought about chances to better develop the economy, so that it was highly successful. On the contrary, most of countries and regions that selected the direction of developing their domestic-oriented economies encountered such problems as sluggish growth of employment in manufacturing industries, widened income difference between the urban and rural areas, sluggish agricultural production, ineffective structure of industries, and foreign exchange crisis. Many of them experienced a stagnant industrialization of import substitution after going through the initial development stage.

The influences on economic growth, employment, and the efficiency of industrialization by export-oriented economy and domestic-oriented economy are shown in Table 1.

Table 1

Nature of Trade Strategy	Country and Region	Period	Total Average Growth Rate of Domestic-Production	Gross Rate of Factors of Production		Percent	Investment factors		
				Growth Rate	Proportion to Growth Rate of Domestic Output Value	Growth rate of capital	Growth rate of productive force	Proportion of total investment to increased rate of domestic gross output value of production	
Determined Export-Oriented Economy									
	Hongkong	1960-1970	9.10	4.28	47.0	7.60	2.97	53.0	
	South Korea	1960-1973	9.70	4.10	42.3	6.60	5.00	57.7	
	Singapore	1972-1980	8.00	0.01	-0.1	9.48	5.52	100.1	
General Export-Oriented Economy									
	Brazil	1960-1974	7.30	1.60	21.9	7.50	3.30	78.1	
	Columbia	1960-1974	5.60	2.10	37.5	3.90	2.80	62.5	
	Israel	1960-1965	1.00	3.40	30.9	13.10	5.00	69.1	
General Domestic-oriented Economy									
	Mexico	1960-1974	5.60	2.10	37.5	3.90	2.80	62.5	
Determined Domestic-oriented Economy									
	Argentina	1960-1974	4.10	0.70	17.1	3.80	2.20	82.9	
	Chile	1960-1974	4.40	1.20	27.3	4.20	1.90	72.7	
	India	1959-1960, 1978-1979	6.24	0.18	-2.9	4.77	1.65	102.9	
	Peru	1960-1970	5.30	1.50	28.3	4.40	2.70	71.7	
	Turkey	1963-1975	6.40	2.23	34.8	6.82	1.02	65.2	

Source: 1987 *Report on World Development* of the World Bank, 1987 edition, Chinese Financial and Economic Publishing House.

The main reasons that the export-oriented economy differs from the domestic-oriented one in terms of efficiency of industrialization may be summed up as follows: First, the industrial development of domestic-oriented economy generally focuses on capital-intensive technology, so that the transfer of labor force from agricultural departments to industrial departments is slow; whereas industries of countries and regions adopting the strategy of export-oriented economic development have more job opportunities than ordinary import substitution industries because their industrial development employs labor-intensive production pattern in a wider scope. To a larger extent, this is favorable to realizing such social goals as full employment and equal distribution of income. Second, in the course of domestic-oriented economic development, to have a high degree of import-export trade protectionism eliminates foreign competition, so that the national import substitution industries are not subject to any pressure to cut

their cost, improve quality and enhance their production efficiency, bringing about a nationwide sluggish production. In the course of export-oriented economic development, however, a bi-directional competitive environment for imports and exports urges the producers of a country cannot but constantly spend efforts on the improvement of productivity. Third, in a domestic-oriented economy, any payment of capital contributions needed by import substitution industries made out of the foreign exchange revenue derived from the export of primary products will, after some time, develop a vicious cycle of import substitution and foreign exchange shortage. In an export-oriented economy, however, we may, through the development of labor-intensive industries and readjustment of export structure, that is to gradually replace the export of primary products by the finished products of labor-intensive industries, basically put an end to the unfavorable trading conditions, and make it possible to handle the foreign exchange shortage

emerged amid the intensive and extensive development of industrialization, and re-organize the economic basis for developing a healthy national economic cycle.

Though there are few developing countries and regions adopting the export-oriented economic pattern, experience gained in various aspects shows that the development of export-oriented economy is consistent with changes in the world's economic situation, as well as the general trend of economic development in the developing countries. It has become an irreversible common trend of economic development among developing countries. But we should bear in mind that it will not help if the outward-looking economy cannot promote a domestic economic development.

II. A Healthy National Economic Cycle Is the Basis for Participating in Exchanges in the International Market

The development of export-oriented economy requires a rather favorable international economic environment. The situation of international economy is, however, only an external condition for the operation of export-oriented economy. Whether a developing country can take the opportunity of having a favorable international economic environment and make use of it, and whether it can change its domestic-oriented economy into an export-oriented one, play a decisive role in its national economic environment. Moreover, it is impossible for an "export-oriented economy" on the basis of inefficiency and ossified system to either have any positive reaction to prospects of the international economic development, or promote any national economic development.

Judging from the experience gained by the "newly industrialized countries and regions" in their development of export-oriented economy, import substitution of primary products is closely related to the development of export-oriented economy. Import substitution is a necessary condition for export substitution. Even if there is an effective export-oriented economy, it will be impossible to produce any export substitution without the creation of necessary conditions for export substitution during the period of import substitution. In order to smoothly develop the export-oriented economy in the course of industrialization of import substitution, we must first change the land- or resource-intensive production pattern into the labor-intensive one. The economies in most of the developing countries are marked by surplus labor. During the period of import substitution, these countries can only utilize their land resources to expand their export of primary products as a major source of foreign exchange to exchange for intermediate and capital products. However, land resources cannot be reproduced. In the wake of growing population pressure, the land will be gradually absorbed by the traditional agricultural departments, thereby becoming a scarce resource. During the period of import substitution, therefore, it is inevitable that we must establish a new production pattern and industry which can give play to

the advantage of abundant labor resource in the developing countries, so as to replace the production and export of primary products made on the basis of utilization of land resources. Second, in their establishment of labor-intensive industries, the developing countries may make use of the advantage of constant wages under the condition of having an uninterrupted supply of labor, and replace the export of primary products with the export of cheap products made by labor-intensive industries; thereby enjoying more favorable advantages in the international trade, and putting an end to the unfavorable international trade conditions. Third, if one is unable to successfully cultivate a labor-intensive or capital-saving industrial structure, it will lead the economic development to the tendency of constantly enhancing the import of technology, in addition to greatly undermining the capability of absorbing the surplus labor by industrial departments. As a result, the balance of payment of these countries will be worse, and they will face more serious crisis of foreign exchange. Therefore, in order to avoid a series of crisis in their balance of payment, these countries cannot but repeatedly expand their scope of imports to include intermediate and capital products. This, on the contrary, will make the crisis worse, which thus forms a vicious cycle between import substitution and shortage of foreign exchange.

The second main task of import substitution at the second stage is to modernize the traditional agricultural departments, which is also one of the inherent conditions for the development of export-oriented economy. The modernization of agriculture releases the surplus labor from agriculture, and transfer it to the industrial departments for the production of labor-intensive products for export purpose. The modernization of agricultural departments, particularly a large-scale increase of agricultural labor productivity, may sharply increase the savings of agricultural departments, which is indicated by the storage of food, so that the savings in foreign exchange derived from a reduced food import may promote the development of outward-looking economy.

We may prove the above statement by comparing the value Q , the rate of non-agricultural labor in Taiwan province and the Philippines to their respective overall labor employment. When Taiwan province and the Philippines began their import substitution (in 1981), they had a common value Q , which was 0.38 and 0.37 respectively. When the period of import substitution ended, however, there was a wide gap between the two Q values. The value for Taiwan province was 0.47 (in 1966), and that for the Philippines was 0.41 (in 1965).¹ This shows that the industrial development of Taiwan province headed toward the direction of labor-intensive industries, and was creating conditions for its export substitution; whereas the development of pattern utilization of resources, as well as industrial structure, in the Philippines headed a different direction. Under this national economic environment, those favorable opportunities that were developed as a result of readjustment of industrial structure by the West between the end of the 1950's and early 1960's were no use to the Philippines.

As a matter of fact, the main reason that the Philippines could not successfully create the conditions for developing an export-oriented economy at the stage of import substitution is that its stagnant agricultural development hindered the manufacturing in and development of labor-intensive production style, thereby providing a breeding ground for a foreign exchange crisis, which is more important. Taiwan province's growth of industrial labor force was consistent with its growth of agricultural labor force throughout the period of development. At the stage of import substitution, the agricultural productive force was gradually enhanced and exceeded the growth rate of industrial productive force, so that modernization of agriculture at the stage of import substitution became one of the conditions for promoting the development of export substitution. On the contrary, the gap between industrial productive force and agricultural productive force in the Philippines was constantly widened at the stage of import substitution. Its agricultural productive force was reduced while its industrial productive force was enhanced, so that its actual growth rate of national income per person dropped. Because of the drop in its agricultural productive force, its eventually ceased to make any progress during the process of industrialization of import substitution. Beginning in 1961, the productive forces of these two departments came to a complete standstill. ² Moreover, its conditions for international trade started deteriorating in 1950 (See Table 2). As the whole country was in recession, it could not improve its balance of payments though it strived to boost the production and export. This is because in 1954, the amount of import commodities received with each unit of export commodity was 13 percent less than that between 1948 and 1949. Moreover, in the first nine months of 1955, the amount was 18 percent less.

Table 2. Trade Conditions of the Philippines
(1948-1949 equal 100)

Year	Unit Value of Export Goods	Unit Value of Import Goods	Trade Conditions
1950	93	95	97
1951	99	108	92
1952	78	106	74
1953	95	101	94
1954	85	97	87
1955	78	96	82

(January to September)—source: *Theory and Strategy on Economic Development* by Yang Shujin [2799 0647 6651], 1983 edition, Jiangsu People's Publishing House.

The present absolute level of China's industrialization is much higher than that of the Philippines in the 1950's. However, China's current economic development still has many hidden troubles which will bring about "the Philippines crisis". Originally, China was a closed agricultural country taking agriculture as its unitary development. As we adopted following the founding of the state, the closed industrialization with the focal point on heavy industry, industry was not introduced into the

rural system of productive force. In addition, China's urban industries never substituted or compensated for the means adopted by the rural areas to exchange materials and for the export of products, but only exerted influence on the status of agricultural productive force in the area of agricultural output. Agricultural productive force simply supplied its output to industries, and could not substitute its backward means of development by absorbing productive force in the form of machinery industrial productive force. The agricultural departments just supplied in large quantity non-compensatory production funds to the industrial ones, while the agricultural productive force remained within the limits of the departments, and could not return to or integrate with the agricultural production fund (the means of production). This would inevitably bring about a rapid separation of agricultural productive force and the means of production in the course of ordinary production, as well as a backward agricultural productive force and an intensified rural unemployment. This would also inevitably bring about a long-standing situation where the gap between the productivity of agriculture and that of industry is very wide, and the overall structure of the productive force of society would be marked by dualism. Before 1978, the productivity of China's agriculture dropped constantly. Between 1952 and 1985, the relative level of agricultural productivity compared to the level of industrial productivity was on the decline, so that the imbalanced situation between these two departments was intensified. Though China saw a rapid growth of food production after 1978, the rural development of technological basis for materials, and its promotion of economic development in the rural areas were far from satisfactory.

In addition to problems concerning the economic structure, the main reason that China had a seriously imbalanced industrial and agricultural productive forces rests with the pattern of industrialization in which priority was given to the growth of heavy industry. As we started industrialization from heavy industry, it faced three major difficulties, namely capital, labor and technology, right at the beginning. Moreover, industrialization was carried out under the circumstances in which it was completely isolated from the international economic development, so that capital accumulation was achieved at the expense of agricultural development. Though China had, by the end of the 1970's, achieved a high level of industrial development on the basis of its rather low per capita income, and developed an "imperfect and immature" production structure, this kind of production structure had, in fact, become China's major obstacle in its change of economy from a domestic-oriented one into an export-oriented one. First, it was impossible to limit the gap between the industrial and agricultural departments, which were subject to the constraints of this production structure. The conditions of national trade for agricultural departments were protractedly in an unfavorable position, and its capability to release and conserve labor (indicated in terms of food) was very

weak. Not only did it hinder the progress of industrialization, but also made the foreign exchange shortage even worse because we had to depend on import food. Second, the utilization pattern required by such production structure contradicted with China's practical situation for economic operation, the situation of which became intensified with each passing day. Not only did it fail to conform to China's economic environment in which there was a shortage of capital, but also intensified the contradiction between incapability of industrial departments to absorb labor and the abundant supply of surplus labor. Third, this production structure was not in line with the favorable one adopted in the international trade. Under the present international economic system, only the labor-intensive industry focusing on light and textile industries is still favorable to the developing countries in which there are abundant surplus labor, and which can enjoy benefits through production and export. Though China carried out readjustment of the industrial structure in recent years, there were no fundamental changes in the "imperfect and immature" production structure, as well as the export structure derived therefrom. Its export of labor-intensive products, with light and textile industries as well as garment industry as the focal point, only respectively accounted for 20.3 percent and 24.11 percent of the gross export in 1985 and 1986. Fourth, the export structure formed by this inefficient production structure did not conform to the conditions for international trade. In China's export structure, the proportion of export of primary products was still very large, which was 50.56 percent in 1985, and 36.43 percent in 1986. However, the situation of primary products on the international market had been sluggish. Fifth, this production structure undermined the economic results brought about by export of commodities. It seemed that there might not be any fundamental change in the economic results derived from the export of commodities before we made any substantive progress in our structural reform and readjustment of the industrial structure.

To put it in a nutshell, if we cannot take this opportunity and correctly anticipate changes in the international economy, promptly readjust the industrial structure, or greatly develop the processing industries that are internationally competitive, China will be unable to grasp and make use of such favorable opportunities in the international economy, to make better economic achievements in the course of developing export-oriented economy. This should be an irreversible tendency shared by developing countries in their economic development. However, the development of export-oriented economy will simply be a mirage if there is no healthy cycle in their own national economy or modernization of traditional agriculture to serve as the basis. At the present stage, the national economic conditions are not yet mature for us to change overnight a domestic-oriented economy into an export-oriented one, nor is it sensible for us to launch now a large-scale nationwide campaign to encourage the practice of developing export-oriented economies. In order to participate in

exchanges in the international market, to stay at the unbeatable position, we must first promote healthy competition within our national economy. Otherwise, we shall be unable to accomplish development of our national economy. But what makes things worse is that this will otherwise bring about deterioration of the national economy so that we cannot but return to the old practice of developing the domestic-oriented economies.

III. Stabilizing the Macroeconomic Environment Is a Prerequisite for Developing an Export-Oriented Economy

Judging from the experience of some developing countries, the stability of macroeconomic environment is the starting point for successfully changing a domestic-oriented economy into an export-oriented one. Attempts made by some countries to solve their macroeconomic crisis through the development of outward-looking economy all ended in failure. A basic balance of revenue and expenditure in a nation's fiscal budget, as well as a basic stability of currency, exchange rate and price level, are the prerequisites for developing an export-oriented economy.

Measures for imposing restrictions on quantity are generally adopted by domestic-oriented economies to maintain their balance of payment, and they also over-value their own currency. A excessively high exchange rate is favorable to the import of intermediate products for production, which thus develops the tendency of encouraging import substitution industries to use to a larger extent the technology applied to imported goods. This thus further intensifies the conflict between the structure of import substitution industries and these countries' own reserve of resources in terms of allocation of resources. Moreover, an over-valuation of currency is, in fact, a kind of hidden "taxation" on export departments. If these departments take products of import substitutes as their raw materials, the competitiveness of products made by the country concerned will be impaired because of high production cost brought about by excessively high prices. Problems concerning these aspects have been revealed recently, in the wake of opening China's economy to the outside world, and its growth of dependency on trade. As we over-value the currency of Renminbi, the import of technology and intermediate products has been sharply increased; whereas competition at an excessive level is developed because of inefficient export management and the lack of microeconomic control. As the national market is opened up, acts of marketing at a cheap price in order to generate foreign exchange, developing an irrational foreign trade system, as well as centralizing the responsibility for profits and losses to the fiscal system level have pushed up the cost of export. Thus, we can see that importation is much more favorable than exportation under the circumstances where the currency of Renminbi is over-valued and the cost of export is expensive. To encourage export

on large scale is not worth the effort at the present stage at which we are changing the domestic-oriented economy into an export-oriented one.

Recently, the fiscal system respectively asked for funding from the state. The reserve at the treasury became less and less, the currency was excessively issued, the number of non-budgetary investment projects was sharply increased, and the aggregate demand was so great that serious inflation and budget deficit were developed. Also, there was also an unfavorable balance of payment because the localities blindly utilized their share of retained revenue to import goods. Facing these problems of macroeconomic imbalance, we cannot but maintain the nominal exchange rate to offset inflation, in order to force the national prices down. But the result was that the over-valuation of exchange rate became more serious. Furthermore, an excessively over-valued exchange rate would further hamper export, and an excessive aggregate demand fuelled by inflation would in turn exert greater pressure on imports. The combination of these two factors would inevitably bring about difficulties in maintaining a balance of payments. Therefore, it is inevitable that the exchange rate will be raised without rationalization of the macroeconomics. It is impossible to carry out any important trade reform under the circumstances where the macroeconomic conditions are deteriorating.

Let's think about it again. What will happen to the economic system as a whole if we adopt a practical strategy and replace the two export-oriented policies that we usually adopt? Obviously, it is not sensible for us to encourage export by abruptly devaluing the currency, and we should draw a lesson from Argentina in this respect. Under the circumstances where the inflation rate is very high, to constantly devalue the currency on a large scale will inevitably bring about soaring deficits, will cause inflation to become irresistible, and will develop crisis in the balance of payment. It still cannot change the core of the problem even if we adopt such incentive policies as export subsidies in order to offset the tendency of counter-export. Under the circumstances where the budgetary deficit becomes enormous, any fiscal subsidies to export will directly become the factor for inflation. Moreover, the amount of export subsidies will soar in the wake of spiral increase between inflation and the excessively valued exchange rate. Also, export subsidies are no longer an effective foreign trade policy. Such act is becoming an excuse for the industrially developed countries to impose anti-dumping duties.

Summing up the above mentioned points, it is not sensible to reform the foreign trade system, or to change the domestic-oriented economy into an export-oriented one at the present stage of reform at which the macroeconomic environment is very unstable, the inflation rate is excessively rapid, price reform will be carried out on full scale, and the economy as a whole now undertakes the greatest risk.

Footnotes

1. See *The Development of Economy with Surplus Labor* by Fei Jinghan [6316 2529 3352] and La Lisi [2139 1441 2448], 1964 edition, Yale University Publishing House

2. Ibid.

Use of Interest Rate as Curb on Inflation

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[Article by Jin Yanzu 6855 1177 4371 of the State Economic Information Center: "Use of Lever of Interest Rate To Restrain Currency Inflation" in August 1988]

[Text] An extremely urgent task currently facing reform and construction is restraining currency inflation, stabilizing the market and the economy, and creating the necessary conditions for the all-round price reform. The key of the whole problem lies in what method to adopt in restraining currency inflation. Using the administrative policy of suddenly stepping on the brake can easily cause the economy to slide downhill. In particular, employing the measure of "sudden and indiscriminate application" may restrict the supply of funds to projects and production which have produced good results and urgently need development. This would run against the reform target of selecting the strong projects for development. A relatively effective measure is to raise the interest rate on the residents savings deposits and the interest rate on bank loans and, through raising the price of capital funds, expand the supply of funds. This will depress the demand for funds, regulate and improve the investment and input of funds, and create a mechanism of self-regulation and self-restraint on the supply and demand of funds in conformity with the laws of a socialist commodity economy.

I. The Source of the Policy of Low Interest Rate and Its Defects

In a developed commodity economy, the supply and demand for funds, in their capacity as a sort of commodity, are naturally subjected to the restraint of the law of value. When the interest rate which reflects the price of funds is on the low side, the residents' enthusiasm for savings is lowered, their consumption wishes are augmented and bank deposits are reduced in amount. Simultaneously, industrial and commercial enterprises' demand for funds expands, bank loans increase and the pressure for issuance of banknotes increases. When interest rate is on the high side, the state of affairs is reversed. Hence, interest rate is the most effective lever for regulating the supply and demand for funds.

Historically, our country has for long been located in a self-supply and self-sufficient natural economy. On the one hand, due to the low level of the productive forces, little surplus is left and the amount of funds available for accumulation has been extremely limited; and, on the other hand, due to the rule of the feudal and despotic system, a mechanism for the accumulation of civilian capital has so far not been formed. Moreover, with the country being behind in modern scientific technology, the value-increment rate of investments has been low

and capital accumulation has always ended with a high-degree centralization of the ownership right of land. This is an important source of our country's modern industry having been extremely slow in development.

After the founding of the republic, we have tried hard to build on the basis of a natural economy a socialist commodity economy. In the management of funds we have enforced the supply system of unified receipts and unified expenses. Distribution of funds relies on the state's planned allocation. This has nothing to do with the interest rate and whether the interest rate is high or low is of no significance. As for the salary and wage income of the staff members and workers, they are only the evidence of the quantity of labor they have supplied to society and by far the great portion of the income is expended on living expenses with little left for savings. The gross volume of bank loans is principally determined by plans forwarded from the above and bear little relationship with the volume of deposits absorbed. An economic structure of this kind determines our country's long-term enforcement of a policy of low interest rate. Take for example, the monthly interest rate of one-year term fixed savings deposits of residents in the urban and rural areas, it was lower than 2 per mille at the initial stage of liberation, was subsequently raised to less than 3 per mille and this interest rate has all along been continued for nearly 30 years. During the period of the 10 years' disturbances, the ravaging of leftist thinking actually at one time abolished interest payment on deposits.

In the 10 years since the reform and opening to the outside, we have raised the interest rate on savings deposits of the residents several times. Beginning from 1 September this year, the interest rate on deposits was universally raised. On fixed deposits of period of 1 year, 3 years, 5 years and 8 years, the interest rates were respectively increased to annually 8.64 percent, 9.72 percent, 10.8 percent and 12.42 percent. Even then, compared with the commodity price index, it was still rather low and the state of negative interest rate has not yet changed. According to computations made, in 1985, 1986 and 1987, the actual interest rates on 1-year fixed deposits were respectively -2 percent, 1.2 percent and -0.1 percent. In the first half of 1988, it was -5.8 percent. With the pre-estimated commodity price index for the whole year being 15 percent, and computed on the basis of the interest rate on 1-year term fixed deposit after 1 September, the actual interest rate was still -6.36 percent. The world has seldom seen such low interest rates. Particularly in large and medium-sized cities, due to the commodity price index being higher than the average level of the whole country, the overly low interest rate has been an outstanding problem. The extensive masses of residents, under the system of low wages, have found that the money they had saved through thrift and diligence and deposited in the banks had become de-valued on account of the rise in commodity prices. It is unacceptable to the people's masses.

Policy of low interest rate produces the following defects:

(1) Expands consumption demand and hinders growth of savings deposits. Due to the low interest rate and negative interest on the savings deposits of residents of our country, a large number of residents are unwilling to deposit cash in the banks. They would rather keep the money to await purchases or make panic purchases of gold and silver ornaments, foreign currencies and high-grade durable consumer goods not urgently in need. This is done to protect, or partially to protect, the value of money.

According to statistics, at present there are in people's hands cash amounting to over 100 billion yuan, equivalent to 43 percent of the total financial revenues of 234.7 billion yuan of the country in 1987. This is quite a sizable amount of money and represents a powerful force that can at any time launch a serious assault on the market.

(2) Expands the demand for funds and wastes funds that are in short supply. Simultaneous with the low interest rate on savings deposits, the interest rate charged by our banks on loans is also very low. The situation of the commodity price index being higher than the interest rate on loans aggravates the "disease of hunger and thirst for loans" and makes it difficult to control the scale of capital construction. At the same time, the quality of users of loans is uneven, some good and some poor, and projects with poor economic benefits consume a portion of the loans. This is disadvantageous to readjusting the investment structure and lowers the effects of the use of funds and also causes waste of funds that are already in dire short supply.

(3) Leads to and aggravates currency inflation. Under the conditions of not using administrative measures in the distribution of funds and taking funds as a sort of commodity, to continue the policy of low interest rate will unavoidably lead to currency inflation. With the source of funds being cut short but the demand for funds continuously rising, only the issuance of more banknotes can make up for the shortage in funds. In recent years, the low interest rate policy has been one of the causes of our country's inability to control the scale of loans and the volume of issuance of banknotes, thus causing an excess volume of money in circulation and leading to a large-scale rise in commodity prices.

II. Raising the Interest Rate Is an Effective Measure of Treating Currency Inflation

At the present moment, the reform of the economic structure of our country has entered a key stage and all-round price reform has been put on the agenda. In order that price reform can proceed smoothly and achieve success, it is necessary to treat and put in order currency inflation. The principal causes of the current currency inflation are the inflation of gross demand and the over-issuance of banknotes. Hence to control currency inflation, it is necessary to control gross demand and to restrict the issuance of banknotes.

To control gross demand, the traditional administrative measures are simply cutting down the capital construction projects, depressing the investments and limiting the growth of the consumption fund. But over-doing of these measures may bring about many side effects and paying a high price is needed. In the first half year of 1988, the scale of capital construction in our country was higher than the corresponding period of the preceding year by only 14.1 percent. Deducting the factor of the rise in commodity prices, actually there was no increase at all, and this directly affected the stamina of economic growth. The people's standing of living should follow the growth of the economy and improve yearly. Over-restricting the growth of the consumption fund implies that the level of the standard of living of a portion of the people will be lowered. This is not an infallible policy.

Strictly controlling the supply volume of money is a principal measure to restrain demand and currency inflation. However, actual practices in recent years have shown that under the conditions of the price of money being too low, resorting to loans being still the main measure of enterprises to increase profits and an effective measure to check the enterprises' impulse for investment being still lacking, the targets of controlling the scale of granting loans and thereby controlling the issuance of more banknotes frequently cannot be accomplished. The conditions this year even more fully attested to this point. Up to 10th August this year, the net increase in money circulation was 40 percent over the corresponding period of the preceding year; and by the end of July, various kinds of loans from the banks increased by 24.6 percent over the corresponding period of last year. Seen from the present condition of the enterprises' demand for funds, the credit and loan target fixed early in the year is certain to suffer from a large-scale breakthrough and it appears hard to realize the plan of controlling the issuance of more banknotes.

Increasing effective supply is also one of the measures frequently mentioned by people to restrain currency inflation. However, increasing effective supply implies increasing the supply of funds and the demand for investment in material resources. Under the conditions of the existence of a "bottleneck" restraint on material resources in our country, shortage of raw materials, pluralism in the interests of enterprises and their inclination to committing short-term acts, this may be possibly twisted by the investment inflation coexisting with the demand inflation. Hence such a program can hardly achieve satisfactory results.

There are various indications showing the danger of further aggravation in the present currency inflation in our country and that price reform and economic stability will face a severe test. The task of treating the currency reform is extremely urgent and the adoption of important and big measures is needed. Compared with the measures of treatment mentioned above, raising the interest rate is an economic measure that can be selected. It has received the important attention of the economic circles.

However, at present people have paid attention only to raising the interest rate on savings deposits and besides advocated only a slight degree of increase. We believe that this does play a certain role in stabilizing savings deposits but is still far from achieving the purpose of heading the currency inflation. Statistics have shown that from 1978 to 1987 banks in our country have successively raised the interest rate on deposits six times. Since 1985, the annual interest rate on 1-year term fixed deposits was raised from 5.76 percent to 7.2 percent, the savings tendency that year, that is, the proportion of the gross amount of the residents' holding of financial assets including savings deposits, bonds, shares, stocks and cash out of their gross monetary income, increased from 16.5 percent to 17.3 percent, but has dropped every year subsequently. At the end of 1987 it was only 15.3 percent and from January to May this year the amount of the residents' deposits decreased by 3 billion yuan compared with the same period of the preceding year while the amount of withdrawals increased by 73 percent. Thus, the situation urgently calls for raising the interest rate swiftly and to an even larger extent.

Due to the rise in the commodity price index in the first half of this year being 13 percent, even at the newly readjusted interest rate, including interest rates on medium-term and short-term fixed deposits and current deposits, in reality the interest rate is a negative one. Not only is the interest rate on savings deposits a negative one but also is the interest rate on bank loans is a negative one which reflects the income of the banks. In other words, in utilizing bank loans to engage in business activities, industrial and commercial enterprises not only fail to pay any charges to the state for the use of funds but also take in "financial subsidies" from the state and the more the loans the more "subsidies" are received from the state. In reality, this type of policy on interest rates encourages the enterprises to make more loans and is tantamount to adding fuel to the flames of currency inflation.

In order to encourage the interest rate to display its role of restraining currency inflation, we should not only raise the interest rate on savings deposits but also increase the interest rate on loans. Furthermore, we should make the interest rate follow the index, that is, the interest rate on residents' fixed savings deposits should be higher than the commodity price index by 2 to 4 percent and make the interest rate on loans appropriately higher than the interest rate on deposits. The scheme enforced in September 10 this year of value-protective savings with a fixed period of 3 years or more can only protect the value and yields no interest.

Raising the interest rate is the "agent to subside swelling" in the treating of currency inflation. Only when the interest rate is raised to above the currency inflation rate can we eliminate the people's psychological fear about currency inflation, make them firmly believe that savings is a reliable measure to protect the value of money and thus check the inflation of their consumption

demand; and only by so doing can the investment structure be improved, can we make priority selection in granting loans, can the strong be given priority in development, can there truly be a strong combination of the production elements, and can redundant construction with low effects be made to lose its conditions for existence. Speaking about savings deposits, it may be noted that raising the interest rate can absorb society's purchasing power and change demand into supply. According to a regression analysis, since 1978, 70 percent of the rising tendency of savings were due to the rise in the interest rate on savings deposits and only 30 percent was due to the increase in the people's income. A correlated relationship existed between the residents' surplus funds for savings and the interest rate of deposits. Analysis of the figures for the same period showed that for each increase of 1 percent in the interest rate on savings deposits, the proportion between the circulation volume of funds and the surplus of savings deposits correspondingly dropped by 4 percent and cash in the hands of the residents dropped by 2 percent, and the trend toward savings obviously increased.

Raising the interest rate is a "stimulant" to pushing the reform of the operation mechanism of enterprise. The "investment hunger and thirst disease" has been a long-standing problem that cannot be solved. Raising the interest rate of loans helps in curtailing the impulse of the enterprises in making loans for investments. It checks the restraint of the enterprise's soft budgeting and rectifies its blind character and inflexible reaction to loan making.

Raising the interest rate is also a "stabilizing agent" for realizing the stable growth of the economy. Commodity prices comprehensively reflect the economic conditions and the existence of currency inflation is a factor of instability in economic development. Raising the interest rate on deposits and absorbing a large amount of deposits can noticeably reduce the volume of money in circulation, and lower the ratio between cash in circulation and savings deposits. This plays an important role in stabilizing commodity prices and the market. At the same time, due to the interest rate on loans being higher than that on savings deposits, this will give the banks a surplus which in turn ensures the stability and planned character in the supply of funds and helps in marking up the shortages in finance.

At present there are several viewpoints affecting the determination to raise the interest rate. They are worth studying. They may be summarized mainly as the theory of increase in consumption, theory of rise in cost of production and theory of reduction in supply.

The theory on increase in consumption believes that raising the interest rate implies an increase in the volume of payment of interest on deposits, thereby causing an expansion in consumption demand. This viewpoint is not comprehensive enough and also fails to grasp the essence of the whole problem. Consumption demand

involves a time element. Raising the interest rate on deposits can convert current consumption demand to future consumption demand, ease the force of pressure from current consumption demand, and at the same time helps in pushing production through bank loans and improving the future condition of supply.

The theory of heightening the cost of production believes that raising the interest rate on loans pushes the rise in the enterprises' cost of production. As a result of the rise in the cost of production in the enterprises causing a rise in the prices of the products and in the end being reflected in a rise in the prices of consumers goods, the manifestation is a rise in the index of commodity prices, and there is the possibility of the appearance of a situation of the interest rate and prices alternately rising. But the effects of such a situation on economic development are far better than the alternate rise in wages and commodity prices. When an enterprise, even through improvement in technology and management still cannot digest the effects brought about by the rise in interest rate causing an increase in production cost, it will not blindly go into making loans. It may also happen that because of financial difficulties those enterprises which have low economic effects and lack the competitive ability are ultimately eliminated or forced into merging with others. In such cases, it may be said to be a manifestation of society making a rationalized readjustment of its essential production elements. Of course, those enterprises which have a bearing on the national economy and the people's livelihood should be protected and supported through the state providing them with special or privileged interest rates or even subsidizing their interest payments. Thus, we can still achieve the purpose of unleashing the interest rate.

The theory of reduction in supply believes that due to the rise in the interest rate on loans, the enterprises become short on funds, their production is adversely affected and the market supply of commodities is reduced. This problem also needs to be analyzed. At present in our country the channels for the merging of funds have already become pluralistic. Besides financial appropriations and bank loans, there are also various forms of the enterprises raising their own funds such as floating bonds, shares and stocks. In the event of the banks increasing the interest rates on loans, the enterprises, in the short run, can resort to acts such as reducing making bank loans and, in the long run, in view of the violent market competition, they can rapidly readjust their own scale of operation, change the structure of products, and practice savings in the use of funds so as to seek survival and development. Thus, seen from the gross volume of the national economy, only the supply of the portion of products not needed in the market is reduced whereas the supply of products needed in the market not only will not be reduced but also will show a rising tendency under the conditions of improving the economic effects.

III. Coordinating Measures in Readjusting the Interest Rate

When readjusting the interest rate on deposits, first of all we must differentiate between savings deposits by individuals and deposits by enterprise units and organization bodies. Savings deposits by individuals are highly flexible when the interest rate is concerned and a high or low interest rate directly affect's the individual's selection between savings and consumption and there is always the possibility of the individual keeping the money in hand and letting the cash be sedimented. Under the current management structure in our country, the flexibility of deposits by enterprise units and organization bodies regarding the interest rate is small, because they suffer from restriction in their selection of any outlet besides making deposits. Therefore, the interest rate on individual's savings deposits should use the method of being based on the index and linked with the currency inflation rate to form the proper interest rate so as to enlarge the residents' savings and reduce the demand pressure on the market. The interest rate on deposits of enterprise units and organization bodies does not need to follow the index and may be suitably readjusted according to the conditions. At the same time stern measures should be taken to prevent the transfer of public deposits to the name of individuals. Second, we should appropriately widen the differences of interest rates between deposits for different lengths of time, so as to increase the savings deposits for longer periods, change the structure of deposits and control gross demand. As for the residents' savings deposits, the interest rate on current deposits need not be adjusted because current deposits may be withdrawn at any time and their increase does not reduce the consumption demand. Regarding fixed deposits of over 1-year period, aside from the portion of the interest rate linked with the currency inflation rate remaining unchanged, the other portion of the fixed interest rate may follow the increase in the time period of the deposits and correspondingly increase. Interest rates on savings deposits such as deposits by installments for a fixed principal sum and deposits with the principal sum remaining intact but the interest yield to be withdrawn periodically when due may follow the same principle and be clearly stipulated.

As for the interest rate on loans, according to the new regulations, the interest rate on a 1-year term circulating fund loans is increased to 9 percent annually, that on fixed assets investment loans within a 1-year term is raised to 9 percent annually, that on fixed assets investment loans for one to three years term increased to 9.9 percent annually, and that for 3 to 5 years term increased to 10.8 percent. However, seen as a whole, the rates are still rather low. With pushing the measure of making the interest rate follow the index and strengthening the digestive power of the enterprises, raising the interest rates on loans is still necessary. First, under the conditions of currency inflation, the actual interest rate on circulating funds and fixed assets investment loans should be at least higher than zero in comparison. This

will help in restraining the demand for funds and raising the utilizing effects of funds. In view of the enterprises' actual absorbing capacity at the moment, the interest rate on fixed assets investment loans may be raised to a large extent at one stroke and that on circulating fund loans may be raised in several steps. Second, we should widen the differences in the interest rates. In the case of the interest rate on loans enjoying favorable treatment from the state policy, the scale of the increase should be rather small; whereas in the case of the interest rate on loans for projects of blind development suffering from the state's restriction, the scale of the upward adjustment should be higher, thus to improve the industrial structure and reduce the burden on the state of financial subsidies.

Based on the conditions of the volume of money in circulation and amount of profits made by the banks, the People's Bank should formulate the interest rates on the deposits and loans made by the specialized banks in their dealings with the People's Bank so as to enforce the financial policy and carry out macroeconomic control.

When readjusting the interest rate, inside the structure of the interest rate there should be reciprocal coordination while outside the structure corresponding coordinating measures should also be taken.

(1) The banks should be free from administrative intervention; and possess a relatively independent status; and anybody dealing with the banks should follow the stipulated procedure.

(2) Bank loans should be kept under strict supervision, and made to strictly follow the stipulated interest rate. Interest rates, once readjusted by the People's Bank, should be treated as measures of macroeconomic control and be so protected. Auditing and supervising of the various specialized banks should be strengthened to the end that they cannot for the sake of their own interests violate the relevant regulations. In addition, with the deepening of the reform and following the appearance of non state-owned banks and financial institutions of various forms, they must required to follow the interest rate fixed by the People's Bank but they may still be allowed to have their interest rates move upward or downward within a fixed margin of the interest rate fixed by the People's Bank.

(3) The reform of the internal mechanism of the enterprise should be further deepened and the whole reform, with the strengthening of the enterprise's vitality as the central point, should also be deepened. If it happens that an enterprise's loans are determined by the department in charge, that such loans when due can be left outstanding at will, and that exemption from taxation would be fairly easy, then readjustment of the interest rate will not be possible to attain the objective of controlling the gross demand. The relationship between enterprises and banks should gradually become rigid so that the supply and demand relations in funds between them can be reflected in economic legislation and everything is done according

to law. When an enterprise becomes unable to repay the principal or pay the interest on a loan, aside from confiscating the goods held in security, the enterprise may be allowed to declare bankruptcy. Deepening of the reform of the enterprise can improve the economic benefits of the enterprise and increase its ability to digest the effects of rising interest rates.

(4) The issuance of various kinds of negotiable securities should be encouraged, different kinds of measures for merging of funds should be developed and channels for the enterprises to raise funds should be increased, such as the floating of shares, stocks, and bonds. Since readjusting the interest rate may bring about insufficient financial receipts, the finance department may float various kinds of government bonds, treasury notes, and so forth, for subscription by banks, enterprises and individuals and the banks can also issue deposit certificates and savings notes in large denominations. At the same time, markets for negotiable securities should be opened up so as to fully develop the strong points of negotiable securities being transferable and capable of circulating in the market. Moreover, special savings projects such as residence savings projects should also be considered.

(5) By means of taxation, income distribution may be regulated. The system of requiring individuals to report their incomes may be initiated and as for the portion of people who have become well-off before others and who have received high incomes from interest earnings on their large amounts of deposits, they should be subjected to regulation by means of the cumulative income tax system applicable to individuals.

Adjustment, Deregulation of Prices

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[Article by Fei Zhonghu 6316 0112 5706 of the Planning Institute of the Ministry of Chemical Industry: "Reviewing the Line of Thought in Price Reform of Relying Mainly on Adjustment and Deregulation"]

[Text] Looking over the current discussions and theories on price reform, the commanding line of thought is one which relies mainly on adjustment and deregulation. In recent years, the actual practices in our country's price reform have been carried out under the guidance of adjusting and deregulating. Certain adjustments have been made in the prices of certain means of production and means of living but generally speaking the road taken relies mainly on deregulating.

The principal target in the reform of the economic structure is the development of the productive forces and the turning our of national economy into an efficient one, that is, one which possesses a mechanism which makes a strong allocation of resources. The target of price reform must be in line with this principal target. It should call for the formation of a price structure with the

following features: It reflects the supply and demand relations and under the conditions of a policy of decentralization leads resources to flow in the direction of superior allocation and distribution. As for it is worth investigating whether or not such a target in price reform can only be achieved through adjustment and deregulation. In summarizing and evaluating the line of thought of adjustment and deregulation, I wish to make an analysis in the following five directions:

First: Functions of the adjustment and deregulation theory or line of thought in improving economic efficiency and rational distribution of resources. We say that we wish to improve economic efficiency and make a rational allocation of resources, that is, we must use the existing resources of a productive nature to create the utmost use value. But research on the best allocation of resources have shown that only under the command of a full set of rational prices is it possible for all consumers and enterprises to exert their utmost efforts to seek their own largest and best interests separately. This set of rational prices should be market prices formed in a fully competitive market which is free from intervention, prices when supply and demand are balanced, and prices which reflect the marginal contributions of the various commodities to the contents of the targets. So far as a country is concerned, this fully competitive market must be an entire market structure embracing in its fold all commodities and production elements; not a market embracing only one kind or certain kinds of commodities and essential production elements. Research by our predecessors has proven that theoretically the method of mathematical planning can be used to compute this set of prices, although at the moment these conditions and the possibility are non-existent. Oscar Longer has shown that under the conditions of the existence of a consumer goods and a labor force market, the rational prices of the means of production can be found, or at least can be gradually approximated, by means of the trial and error method of a simulated market.

At present, the main problem in price reform is the reform of the prices of the means of production. The great majority of the means of production are under the "double-track price" system. A portion of them enforce planned prices, and production and distribution are in accordance with the mandatory plan while another portion is in free trade and forms free trade prices with disparity, even a rather large disparity, from the planned prices (I believe that we should not call these prices market prices; the market we are talking about is a competitive market not a monopolistic one; but a competitive market has its strict definitions and the free trade mentioned here does not completely abide by the rules of the market; besides so far as a kind of commodity is concerned, the degree of its deregulation is limited and its market is not an integrated one.) Speaking of current planned prices, we all believe that the price structure is irrational, that many of the prices need to be readjusted and that if the enterprises are allowed to follow the existing planned prices to route their actions

there obviously cannot be a rational distribution of resources. Use of the adjustment method cannot readjust the prices of all the means of production to become rational all at once. Doing so will make us face a large scale increase in the general price level which many enterprises cannot stand and they may have to go bankrupt, with subsequent consequences. In the theory of adjusting and deregulating, on the adjusting side the great majority of people advocate taking small steps. But to readjust the planned prices by taking small steps in separate stages and separate batches can hardly play any important role in achieving the improvement of the distribution of resources and naturally cannot now approach the approximation of an improvement in their distribution.

What then will be the results of deregulation? We cannot deregulate all the means of production to the market all at once, because at the present stage we must protect and ensure the needs of the backbone enterprises and the production and construction of major projects. Second, in the case of complete deregulation, due to the very low degree of the fostering and development of our markets, and the incomplete economic measures and legal measures in market regulation, our financial budget will go out of control; the budget for construction funds will lose even the minimum degree of correctness and it will be difficult to correspondingly coordinate the wage problem. If worst comes to worst, political risks will be involved. What then will be the consequences of partial deregulation? Facts have shown that after deregulation, free trade prices will first envisage large fluctuations and second will have an overly large disparity from planned prices. This is because the market itself is incomplete, its degree of growth and development is extremely low, the government's regulation and management is extremely immature, and under the conditions of the general shortage of the means of production, real competition cannot be formed and in the majority of cases only a number of monopolistic prices are formed. Free trade prices formed in this way can hardly lead to the rational distribution of resources. At one time the free trade price of steel products rose to 2000 yuan per ton which was nearly 300 percent of the planned price. With such prices leading the enterprises to invest, many small steel-rolling plants appeared and as a result there was a large waste of resources. Under such a "double-track" system, due to the lack of experience and tactics in market management and to there being no prethought of a rational price, such phenomena as reselling for profit, random raising of prices, and so forth have appeared. With the prices being raised, the government has to issue more banknotes, a sizable portion of which will fall into the hands of people doing the reselling for profit and price-raising, thus forming a force of pressure on the demand for consumer goods. In addition, a portion will form a demand pressure for means of production. This may be said to be one of the causes for currency inflation especially applicable to China.

I do not wish to negate in whole the method of the "double-track" system of partially deregulating the

means of production market. It has definitely brought vitality to the economy and provided news and information to the planning department and the enterprises, making planning and production less subjectively blind. But it should also be noted that the information provided by this partial deregulation of the market is still very incomplete and is as twisted as in the past. Due to the extreme imperfection in the current market structure, the small extent of the growth of the market, and many of the distribution systems such as the wage system, dwelling system and so forth still being rather irrational, plus irrational prices, the whole consumption structure of the residents is a slanting one; so is the production structure of consumer goods; and the shortages shown in the "market" of certain means of production may not be real shortages.

Second: The role of the adjustment and deregulation on enterprises under the system of ownership by the whole people.

Delegating the power that they should have to the enterprises has always been emphasized in the central authority documents. But plant heads of enterprises, particularly of the large and medium-sized enterprises, have still demanded, one after another, the loosening of their "bondages." The problem is that we still lack a set of unified and standardized macroeconomic restrictive measures and economic parameters which can make the enterprises, after "loosening the bondages," consciously abide by economic interests as a whole and that we do not have a set of standard profit-retention methods of enterprises in coordination with a rational price structure which can direct the enterprises to make correct policy decisions. If it is said that enlivening the enterprises requires the necessary external conditions, then these are most necessary external conditions. In economic life at present, the double-track price system which plays the actual role, including planned prices and free trade prices, are all twisted and we cannot, on the basis of these prices, formulate a set of profit-retention methods which are just and rational and conform with the real contributions to the national economy by enterprises. At the moment, we are still using the methods of products and the regulation tax to partially rectify the inequality in joys and sorrows between enterprises caused by this sort of twisting in prices. However, because of the lack of a set of relatively rational prices recognized under the current conditions, the fixed rates of the product and regulation tax are to a large extent, of an "at will" nature.

Although on the surface it looks as if that tax collection is made on the basis of profits computed according to current prices (sales receipts less the cost of production) and that the income tax rate is universally 55 percent, in reality the rate is separately "one for each unit," and is the product of the one-for-one price negotiations between the government and the enterprise. Under such conditions, the enterprises find it impossible to shake off their vertical dependence on the government. Regarding

the method of price adjustment, whether it a small adjustment step by step or a small adjustment by batches, each and every one made will affect the gross volume of profits of a large number of enterprises. In some cases, the product prices are adjusted but the prices of the input articles remain intact; in other cases, the raw material prices are adjusted but product prices stay the same. For the sake of maintaining the profit-retention level of the enterprise, or perhaps to allow it to rise gradually, it is necessary, after each and every price adjustment, to readjust the relevant products and regulation tax, or what some people call the "joint action of price and tax." With the lack of a set of rational prices, the readjustment of the products and the regulation tax rates, due to the lack of a basis, is exceedingly difficult and involves a large amount of work. In fact, each and every price adjustment brings about a new round of negotiations between the government and the enterprises. When the interests earned by enterprises are held in the government's hands, the prices are irrational and the government, seeing that certain things the enterprises intend to do do not conform with the interests of the whole, are constantly compelled to intervene, how is it possible to have enlivened the enterprises?

Let us turn next to the role that deregulation can play in enlivening enterprises. Deregulation, in reality now synonymous with "price-rising," calls for the releasing of a portion of the means of production to the enterprises for them to produce autonomously, and to carry out free trade, in essence allowing the enterprises to retain more of the profits. But due to the a fore mentioned reasons which make it impossible to have all the means of production deregulated at one stroke, it is imbalanced. In certain products the deregulated portion is comparatively large whereas in certain other products it is comparatively small. In the case of the same kinds of products, the deregulated portion in certain enterprises is relatively large whereas in others it is relatively small. This will thus bring along a new set of conditions of inequality in joys and sorrows between the industries and trades and between the enterprises. The various industries, trades and enterprises will, one after another, demand that the government deregulate more of their products as with the quantity and quality of the output and the fixed amount of consumption remaining unchanged, an increase in the deregulated portion will ipso facto bring about a large increase in the enterprise's profit retention. As a result, the deregulated portion becomes an important chip in the negotiations between the government and the enterprises. Thus, the method of gradual deregulation cannot create conditions of competition in equality between the various industries and trades and between enterprises; the profit retention of enterprises cannot reflect their true contributions to the national economy; enterprises cannot truly or without entanglement perform the most beneficial things to the national economy; what they can do is to fix their eyes on the government, unable to shake off their reliance on the state. How then can the enterprises be truly enlivened?

Third: the role that can be played by the theory of adjustment and de-regulation in establishing and fostering the socialist market.

Thoughts on adjusting and deregulating have as their target the formation of a market system. Adjusting is gradually readjusting the planned prices of the means of production and making them gradually turn alongside to the "market prices" (free trade prices), ultimately combining the two into one, abolishing the planned prices altogether and converting the double-track system into a single-track system based on the market prices. Deregulating is gradually releasing a portion of the means of production into the market, from small to large and eventually deregulating all, with only the "market" remaining. These thoughts, particularly those which mainly advocate deregulation, are based on the belief that a "market" can naturally and by itself display its mechanism, form rational prices and rely on such prices to achieve the objective of the improvement and strengthening of the distribution of resources. To realize such a target, we cannot succeed with any kind of market and prices formed in a free lance manner. Theoretically speaking, the market must be a completely competitive one. But most regretfully, such a market has never appeared in history. It exists only in the theories of economists. The markets actually existing in western countries are markets full of monopolies and competitions between them. They require the western countries to maintain the situation only by means of the anti-trust laws, many ordinances, statutes, powerful and effective taxation and accounting systems. The socialist market we need to establish and foster has been called by some people a "competitive market." However, whether it should be a fully competitive or a monopoly-competitive market, they did not specify. I think we should accept a fully competitive market, at least it should be one that can demolish monopoly. In this country of ours in which the commodity economy has just begun, to establish such a market is not an easy matter. It is unrealistic to believe that we need only to deregulate to the market, without need of management and fostering, and that the market will be formed by itself and according to our wishes.

A market has its active, yet also its passive and ugly side. In China, the commodity economy is not developed, production efficiency is low; the "hunger and thirst for investment" cannot be restrained; shortage are fairly universal; experiences and ability to manage and control markets are far behind those of western countries; her statutes and laws are highly imperfect, lacking a set of laws against monopoly and in fact qualified executors of laws are in great shortage. Under such conditions, using the methods of adjusting and deregulating to display the market's active role has limited effects whereas on the passive side the revelations have been astonishing and entrapping, deceiving and cheating others, acquiring goods by unlawful means and reselling them for profit and random raising of commodity prices are rampant.

On the contrary those truly contented with strictly abiding by market regulations in their operations are frequently unable to make a living. Producers, consumers and the government all alike have suffered heavy damage. This in reality has restrained the market's normal growth.

Recently, I have been thinking: In the original economic structure what is lacking? Can it be the market itself or a set of relatively rational prices which can duly reflect the market's supply and demand relations? If opening up the market can naturally bring along a set of relatively rational prices, then we should exert our efforts on opening up and establishing markets. However, if under China's concrete conditions, in the recent period the "market," cannot provide such a set of prices, and the actual facts show that his has been the case, then what should we do next? I believe that at the moment a set of relatively rational prices is most urgently needed and not a "market" which possesses only the form but not the functions which we sorely need.

China must develop her markets, particularly markets for consumer goods. But China's markets are like new-born and congenitally deficient babies and must be kept in oxygen tanks and heat preservation devices before they can gradually become normal. The adjusting and deregulating ideas can only be dragged along by insufficiently developed "markets"; it cannot by itself perform the role of an oxygen tank or heat preservation device. Among the proponents of adjusting and deregulating many have advocated strengthening the management and control of the markets but neither adjusting nor deregulating themselves can provide management and control with a scientific basis and effective measures. In my opinion, we cannot place any hope on our markets spontaneously forming a rational price structure. On the contrary, in China perhaps only through "watchful protection" of a relatively rational price system can the markets grow and develop in a relatively normal manner.

Fourth: role of the theory of adjusting and deregulating on the side of realizing macroeconomic indirect adjustment and control.

So-called macroeconomic indirect control refers to the government, through principally such economic levers as prices, taxation, interest rates, subsidies, industrial policies and medium and long-term development programs and so forth, guiding the acts of enterprises to the extent that they conform to the demands of socio-economic development and not using mandatory measures to prescribe the acts of enterprises. To achieve this point, prices and taxation (including the profit-retention measure of enterprises) will play the principal role. Price is the most important economic lever, but the adjusting and deregulating thought picks price as the object of reform. In reality, if only we can grasp a set of basically and relatively rational prices, employment of the various kinds of economic levers will possess an objective basis and method.

Many proponents of adjustment and deregulation and comrades who are enthusiastic about "enterprise-ism" and "market-ism," believe that the new economic structure should provide the enterprises with the power to fix commodity prices. I am of the opinion that this is an extremely erroneous interpretation of the new structure and the market. Even in a market economy, market prices are determined jointly by supply and demand. Only in the case of commodities under a monopoly are the prices fixed by the enterprises producing these commodities and, besides, western countries are resorting to various ways and means of suppressing monopolies. In a competitive market, the enterprises should be at the receiving end of price-fixing and react accordingly to prices determined by the supply and demand relations. In China, a large proportion of commodities belong to the sellers market and at present are so-called "markets" are still far from being competitive ones. If the enterprises are allowed to fix prices, then we may ask: Is there any enterprise which would not want to have the price of its products fixed as high as possible? Under the conditions of an imperfect legislative system, there are ways to sell these high-priced products and eventually the consumers will be the losers. Price is the government's principal tool to effect macroeconomic indirect control. We cannot give the enterprises the power to fix prices, particularly prices of the means of production. Price should and, can be, the main tool to realize macroeconomic indirect control. But according to the adjusting and deregulating ideas, throughout the entire transitional period it will be difficult for us to make use of this tool. This will delay the progress of the reform of the economic structure and economic development greatly.

Taxation and its related measure of profit retention by the enterprise are also most important tools in realizing macroeconomic indirect control. Only through changing the existing extremely disjointed and irrational taxation system into a unified and standardized one so that the enterprise can learn from this the extent of its compensation and profits, can it be said that the enterprise has been truly enlightened. Only by so doing can macroeconomic indirect control attain its necessary macroeconomic control tactics and economic parameters. In fact, using the method of price-tax joint operation in accordance with adjusting and deregulating thinking will cause a great increase in the work load of taxation but will not bring about a basic transformation of the taxation structure.

The original purpose of our pushing the measure of changing appropriations into loans was, as in western countries, to use the interest rate on loans to control the investment scale and to guide the direction of the investments. But under the existing conditions of irrational prices it could not play the role that we had anticipated. Adoption of the adjustment method cannot at one stroke adjust all the prices to become rational while deregulating cannot be achieved all at once, nor can the market developed immediately, while many of the free trade prices are the products of artificial propping and raising.

Under such conditions, the measure requiring the specialized banks to become fully "commercialized" has been added too early resulting in their banks being willing at all times to grant loans provided only that client has the ability to repay them. Results: inflation of the investment scale, and inflation of credit and loans, followed by currency inflation and failure of interest rates to become an effective economic parameter to realize macroeconomic indirect control.

In short, in order to realize macroeconomic indirect control it is first necessary to set up a unified and standardized macroeconomic restrictive measure and economic parameter to enable the acts and motives of the enterprises, when they possess the decision-making power, to be unanimous with the entire interests of society. On the other hand, adjusting and deregulating cannot play any role in the formation of such measures but conversely will make it more difficult to form such a measure.

Fifth: the role of the theory of adjusting and deregulating in restricting currency inflation.

This analysis has clearly described the role that can be played by the adjusting and deregulating on the side of checking currency inflation. Regrettably neither adjusting nor deregulating can play an active role in checking currency inflation. On the contrary, to a definite extent they constitute one of the sources causing currency inflation. The chief cause of currency inflation is gross demand exceeding gross supply. Principally on the demand side, the investment scale is too large; principally on the supply side, the economic benefits of industrial production are poor, the goods are not marketable, and the existing productive forces are far from fully displayed. On these two sides, the existing irrational price structure has played an extremely large role. Since it is not possible to adjust or to deregulate all at one stroke, then in the entire transitional period of adjusting and deregulating, the continuously readjusted planned prices are still not rational prices, while the deregulated free trade prices are still twisted prices. Thus, in controlling the investment scale, readjusting the direction of investment, improving the economic benefits of industrial production and reducing the volume of un-marketable goods, prices can play only a limited role and it is not certain they will have any concrete effects. In controlling the investment scale, the advocacy of "soft landing" [as published] is correct. Rigidly depressing it may cause many equipment-making industries and trades, those dealing in construction materials and those actually engaged in construction work to suspend business and have nothing to do, resulting in the waste of social productive forces. This should be avoided. The urgent task at present is to transfer the strength and forces originally impounded on projects yielding poor economic benefits to projects which can yield better economic benefits and are sorely needed by society. To carry out such a readjustment, it will not work if a set of

relatively rational prices are absent. Since both adjusting and deregulating cannot at the moment provide a set of relatively rational prices, the so-called "soft landing" is not possible.

Seen from the above brief analysis made on all five sides, while the theory of adjustment and deregulation cannot play an active role, its passive role is by no means small. Working according to this idea, it is very difficult to form a relatively speaking, lax economic environment, undulations will continuously appear in economic life, commodity prices will be unstable, and the people will be restless. It cannot play any great role in the all-round promotion and pushing of the reform of the whole economic structure and in fact brings to the taxation system, investment structure, currency structure and planning structure many difficulties in their reforms. As a whole it may be said that this theory is a line of thinking which confines itself to price when price is talked about and to price reform when price reform is talked about. It treats price purely and simply as the object of reform, in the belief that price reform is reforming prices; it lacks a viewpoint of the overall situation of reform of the economic structure, lacks the concept of systematic engineering and fails to fully understand that price is the object of reform on the one hand and is the most important tool for pushing the reform of the economic structure in an all-round manner on the other.

I believe that we should look for other lines of thought on price reform outside of adjusting and deregulating. Indeed other lines of thought are available. The one that we advocated last year with the establishment of a set of "policy price structure" as the nucleus was outside of its confinement. It advocated; Government should concentrate its forces within a year's time, giving due references to the international market prices and competitive prices and in combination with the domestic supply and demand conditions, formulate a set of "policy price structure" which is independent of the current price structure. First of all this set of policy price structure should be employed to assess the economic benefits of the projects currently under construction or planned for construction, control the investment scale, hold in check the excessive inflation of gross demand, and generally stabilize commodity prices. At the same time, a new and standardized taxation method should be formulated to enable the enterprise's profit retention to be linked with the gross profit or net production value computed from policy prices. A transitional period of 10 years should be specified for the gradual transition from the existing profit-retention method to the new profit retention method, this is to enable the enterprises to take time to transform becoming used to the new arrangement. New investment projects should go through assessment by the national economy using the policy prices, this is to be the main basis for the policy decision. By so doing, the principal microeconomic activities will all conform with the interests of the entire economy. The free trade prices of the domestic deregulated "markets" should likewise

be adjusted and controlled by the policy prices. These policy prices should periodically and appropriately be smoothed out and readjusted in accordance with the domestic supply and demand conditions and changes in the international market prices. Our advocacy followed the line of thought on reform of the entire economic structure. While it put price reform in a very important position it was not a thought merely on price reform. In comparison, the role that it could play on the five points mentioned in the above analysis would be much better than that of the line of thought on adjustment and deregulation.

PROVINCIAL

Fujian Governor on Enterprise Reform
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[Text] On 28 and 29 October the provincial government called a deepening enterprises reform forum to discuss the problems of reforming enterprises in-depth in order to increase awareness and confidence, clarify the direction, and jointly explore solutions.

Wang Zhaoguo and Shi Xingmou attended the forum. Fuzhou, Xiamen, and Sanming City leaders; officials from relevant departments; and directors and managers of some large and medium-sized enterprises also attended. Wang Zhaoguo affirmed achievements made in reforming Fujian enterprises and explained his views on the ongoing reform's focuses in his summing-up speech. He said: The purpose of deepening enterprise reform is to harness enterprises and their workers' enthusiasm and improve their economic efficiency to make our society more prosperous. We should deepen reform so that enterprises will gradually form self-regulation mechanisms and be responsible for their own profits and losses. It is necessary to induce the competition mechanism, encouraging enterprises to compete against each other and take risks in order to invigorate themselves and improve their economic efficiency.

First, it is necessary to continue to perfect and adopt supporting measures for the contracting system. It is necessary to encourage people to contract enterprises that have not been contracted yet and select managers through public bidding. As for enterprises whose contracts are due to expire, it is necessary to further improve the contracting method and induce the competition mechanism by selecting better contractors. Large enterprises may try out the system, but prudently. For enterprises failing to fulfill, or poorly fulfilling, the contract, the contract may be terminated through consultations and a new contractor selected through bidding competition. Active and prudent measures should be taken to alter or terminate, through consultations, contracts for enterprises having difficulty in continuing the contracts or poorly fulfilling the contracts because of external changes. It is necessary to continue to perfect the contracting system even for enterprises that are able to fulfill

their contracts and have achieved good operational results and, at the same time, select new managers through public bidding in a few selected enterprises.

Second, a joint-stock system should be actively experimented with. To adopt the joint-stock system is to define ownership and property rights and delineate ownership and operations rights in order to increase enterprise management rights.

As long as it is needed for expanding new products' reproduction or development, all enterprises under whole people's or collective ownership may adopt the joint-stock system in any form. The system may be adopted between one state enterprise and another. State enterprises may also draw investments from collective enterprises by issuing shares to them. Likewise, enterprises may attract investments in the same manner among individuals, particularly their own staff and workers. This very difficult task calls for courage to practice and explore. It requires much know-how to issue stocks. It is also a very complex issue. It is necessary to seriously study the issue, actively explore ways to deal with it, and boldly practice the joint-stock system. Enterprises that have been doing a better business than others are particularly encouraged to take this bold step. Experience should be summed up to gradually popularize the system's practice. We must see to it that this work is done in a practical and down-to-earth manner.

Third, make conscientious and good efforts to promote optimum labor organization as part of enterprise reform. Enterprises must decide what the optimum labor organization is in accordance with technological requirements and based on the organization's structure, number of workers, work quotas, and work posts involved. At present the most salient problem confronting us in promoting optimum labor organization is solving surplus personnel livelihood and employment problems. The solution to the surplus personnel job placement problem will bring about a major breakthrough in promoting in-depth enterprise reform. The solution to the surplus personnel job placement problem should be sought first within the enterprises themselves by opening new production and operations avenues. The job placement problem for part of the surplus personnel can be solved by developing new products or establishing new enterprises to provide employment for them, which they can apply for by bidding as contracted workers. Additionally, active efforts should be made to take other, diversified approaches to solve the problem, including forming labor service companies, encouraging surplus personnel to offer their services elsewhere or seek work contracts with other enterprises.

Enterprise leaders must earnestly strive to solve surplus personnel livelihood and employment problems and do good ideological and political work among them. All departments concerned should actively help enterprises

solve their problems, pay attention to carrying out supplementary reforms in support of the optimizing labor organization drive, continue to open the labor service market, and institute social insurance as quickly as possible.

Fourth, improve enterprises' internal distribution system and perfect their incentive mechanism. Reform must be carried out in connection with benefits distribution. No contracted system can last long if it is set apart from benefits distribution. At present more than 1,350 enterprises in our province have adopted the method of basing wages on economic results. Results of this practice have generally been good. The problem now is fund shortage. But we must not turn back or stop this practice on account of fund shortages. We should persist in practicing this method. In carrying out enterprises' internal reforms it is necessary for rural enterprises to adopt good management and work methods. It is also advisable to incorporate foreign enterprises' good management experiences and work methods to handle things in accordance with international norms.

Fifth, problems delegating powers to the enterprises. Governments at all levels must strengthen leadership over in-depth enterprise reform. They should step up macroeconomic management and increase their ability to exercise macroeconomic regulation and control so as to gradually bring about an operations mechanism in which "the state regulates the market and the market guides enterprises." Further efforts should be made to invigorate enterprises and delegate necessary powers. Some localities are experimenting with running enterprises without a department directly in charge of their operations. We can also try it. We can practice this method in selected places as long as these enterprises pay taxes in accordance with the law, operate by themselves, and assume sole responsibility for their profits and losses; and are supervised by state property management departments which will investigate any legal or discipline violation and impose punishment where the law calls for it. Enterprise auction, merger, and a joint-stock system all touch on the question of whether the departments in charge will delegate powers needed for these undertakings. Departments in charge should proceed from reform's need to create conditions necessary for implementing enterprise auctions or mergers, forming enterprise groups, and practicing a joint-stock system. Labor and personnel departments should pay attention to insurance work. Unified planning for industrial and communications departments' workers' retirement has already been launched. The concerned departments should consult among themselves to start social insurance. An enterprise's auction calls for close attention and careful arrangements. It is advisable to begin with smaller enterprises and gradually expand the operation. In this way state property viability will be enhanced.

Liaoning Economic Achievements, Problems Noted

SK2811125588 Shenyang DONGBEI JINGJI BAO
in Chinese No 304, 8 Nov 88 p 1

[Text] There were both economic achievements and problems in Liaoning Province during the previous three quarters of this year. Some of the problems must not be neglected. This was announced by the provincial Statistical Bureau at a recent press meeting.

From January to September, Liaoning witnessed a good trend of basically maintaining stable growth on various national economic fronts. However, some destabilizing factors continue to exist and have become increasingly serious. The main reasons for this have been: The scope of extra-budgetary capital construction has not been effectively curtailed and investment increased 61.1 percent over the same period last year; consumption demands have been too excessive and bank expenditures for wages increased 25.6 percent, institutional purchases were controlled but not curtailed, continuing to show an increase of 25.7 percent; loans increased, bank cash receipts were far greater than expenditures [as published], credit funds were short and the shortage was great; there was a shortage of industrial raw materials and supplies of coal and electricity were touch and go; the increase in the production of machinery and electrical products in excessive supply was too rapid, affecting the readjustment of production set-ups and the updating of products; agricultural problems were particularly acute, the prices of the means of production grew too high, comparative economic results became increasingly low, peasants' enthusiasm in grain cultivation declined increasingly, and next year there will be a continued decline in agriculture; and prices rose too rapidly. In September, the retail commodity price index of the province rose 25.4 percent over the same period last year and some peasants found it difficult to withstand the strains on them. Based on a sample survey, the living standards of 38 percent of residents declined.

The spokesman of the provincial Statistical Bureau also said: These problems should not be neglected and counter-measures should be adopted at an early date. Otherwise, next year's economic development will be affected.

Xinjiang's Role in Coastal Development Strategy Discussed

40060093 Urumqi XINJIANG RIBAO in Chinese
23 Sep 88 p 4

[Article by Huang Baozhang 7806 1405 3864, Vice-Chairman of the Autonomous Region: "Our Thoughts and Applicable Measures"]

[Text] Premier Li Peng's "Government Work Report" delivered at the 1st plenum of the 7th National People's Congress clearly sets forth the strategy for stepping up coastal region economic development and it has evoked

strong repercussions among Chinese and foreign people. This strategy isn't a regional one, but rather it is a national strategy for stepping up development of the whole national economy. The coastal region can undoubtedly step up its development by implementing the preferential policies extended to it by the central government. But what about the central and western regions of the country with their backward economic development? Now that the central government has set forth the strategy for stepping up development of the coastal region economy is the gap between the central and western regions and the coastal region going to widen? How do the central and western regions keep pace in their economic development? This is the question everyone in the country is concerned about. Also, the repercussions abroad are quite strong. People abroad are very interested in the state's economic policies for the eastern coastal region as well as those for the western region including Xinjiang. They very much want to know how we look upon the strategy for coastal region development and also how we are going to deal with it. This makes it necessary for us to earnestly look into these issues.

I. The Foundation on Which the Strategy for Coastal Economic Development Was Put Forth

A definite international and domestic background exists from which the strategy for coastal economic development was put forth.

Looking at the domestic background, since the 3d plenum of the 11th Party Central Committee we have implemented a series of reforms which have tackled the whole economic situation. Industry and agriculture have seen great development through the reforms. In particular, we have had bumper farm harvests in successive years, which has basically solved our subsistence problems. In 1986 each person in China had over 370 kg of grain, whereas in Xinjiang each person had 399 kg. In 1987 the people of Xinjiang broke through the 400 kg barrier with each person having 419.5 kg of grain. As the economy developed, the agricultural structure of the coast saw great change. Not only did the planting industry develop, but township enterprises also rapidly developed. Sideline industry took on greater proportions in the village economies. Jiangsu Province had a rapid growth in three years, during which time 48 percent of the total value of industrial production could be traced to township and collective enterprises. This reached 52 percent in Zhejiang Province. Most of the raw materials used by the cotton spinning and wool spinning factories of township enterprises came from China's hinterland provinces and regions, and much of them from Xinjiang. Wujin County alone had upwards of 10,000 purchasing agents out in the western regions buying raw materials. When Comrade Zhao Ziyang went to inspect the coastal region last year, he saw that 50-60 percent of coastal farmers had left the fields to work in the factories, and most of the raw materials they needed came from the central and western regions. Most of the products were

sold to the central and western regions, and both ends were at home with raw materials and markets both being in the central and western regions. In the last few years, city, township, and collective enterprises in the central and western provinces and regions have seen fairly rapid development. We have also come to realize that to promote village economies and strengthen county-level finances, Xingjiang's township level enterprises must catch up. Thus, last year we in Xinjiang held a work conference on developing township enterprises. We must speed up development of township enterprises. Here we ran into a contradiction. In the end, to whom is given the raw materials of the central and western regions? And in the end who comes to occupy the markets of the central and western regions? This is a major issue. Because of their strong production competitiveness, the cities of the coast can buy their raw materials abroad and sell their products abroad. For example, last year one county in Guangdong made over \$200 million on exports of finished products produced with foreign raw materials. This was equal to Xinjiang's earnings for the year. Similar situations abound in such provinces as Guangdong and Fujian. If the coastal region economic development strategy were not implemented, two types of results could come about. First, we could see a development of the central and western regions. We could use our own raw materials and occupy the central and western markets. Thus, farmers in the coastal township enterprises would return to their fields. Or second, it could inhibit our development in which case the central and western regions would act as suppliers of raw materials to the coastal region and we would let products from the eastern regions occupy our markets for a long time. Because the markets and the raw materials are both limited, if this were to happen, township enterprises in the central and western regions would not be able to develop much. Obviously neither of these two scenarios are acceptable. Regional economies must put both ends abroad (that is, raw material sources are abroad and product sales markets are abroad), and develop an export-oriented economy. They should use foreign raw materials and occupy the international market. In this way, the coastal region will benefit by making use of the international market to step up its development and the hinterland will benefit by introducing advanced technology from the coast and using its own raw materials to open up domestic or international markets. This is a move that vitalizes both the coast and the hinterland.

Looking at the international background, during the 1950's and 1960's an adjustment came about in the international industrial structure. Because of higher labor costs and higher prices of long distance shipping, several developed nations shifted their funds and technology to certain eastern nations and regions. This brought on major economic development in these nations and regions. At that time we were engaged in class struggle and missed out on the opportunity. Recently, because of changes in the international market, and in particular depreciation of the U.S. dollar, the appreciation of the Japanese yen and higher labor

costs, the labor intensive industries which some nations have in this area are not paying off and these industries are also looking to move out. The industrial structure has seen a new adjustment. Whoever snatches up this opportunity gets the funds and technology of the world. Do we in China meet the conditions for this opportunity? The answer is in the affirmative. This is because this world shifting requires two conditions be met. First, the candidate must have cheap labor. Second, this labor force must be of fairly good quality; that is, the workers must be able to grasp modernized technology. The township enterprises on our coast meet both conditions. Some of the township enterprises have put their products onto the Shanghai market and the international market. So, implementation of the coastal economic development strategy is extremely beneficial to the coastal region. At the same time, it is not only a coastal development strategy, but one that touches on development of the whole national economy. If it didn't, the contradiction between the eastern and western regions would be difficult to resolve. At present, the coastal region is foregoing domestic raw materials and market, and at the same time it is stepping up its economic development with the central and western regions. Because of the above-mentioned reasons, Comrade Deng Xiaoping pointed out: "By all means do not bungle the opportunity."

II. Our Thoughts on Implementation of the Coastal Economic Development Strategy

Implementation of the coastal economic development strategy presents us in Xinjiang with an opportunity and a challenge. In 1980 the overall value of industrial agricultural production per person in Xinjiang was 178 yuan lower than the national average. In 1987 it was 350 yuan lower. Although in recent years our annual development has been over 10 percent, because of even faster national development and our small base, our development lags way behind that of the nation. If we can't catch up during implementation of the coastal economic development strategy, the gap will grow even wider. Thus, we should seize the opportunity in this development strategy to catch up and develop Xinjiang's economy. How do we develop? There are three aspects:

First, strengthen dialogue between the eastern and western regions, maintain cycles while combining, and develop and expand ourselves while maintaining these cycles.

The coastal development strategy puts both ends abroad. But are two ends abroad necessary? Would one end abroad by alright? I feel that a true accomplishment of putting one end abroad is a good thing. By using domestic raw materials in processing exports, we could eliminate or cut back on spending foreign exchange. At the same time we could earn money. This is all the coastal region could ask for. But currently the problem is that certain raw materials are in short supply domestically. Putting only one end abroad could rob markets and raw materials at home. I feel that, operating on the premise

of not wresting raw materials from domestic markets, certain products can be done from start to finish with one end abroad. There are certain products now for which we need only put one end abroad. Here in Xinjiang we can use our raw material strength to support the coast in developing their export-oriented economy. We can support the coastal region in putting only one end abroad for some of their products and at the same time develop ourselves in this horizontal combination. For example, one ton of long nap cotton goes for over \$3000 on the international market. This is a good price and if the long nap cotton is processed into yard and cotton finished goods, the price is even higher and results will be even better. We can export less raw cotton and sell semi-finished products to the coastal region where they can process the products for export. In this way they don't have to import long nap Egyptian cotton, they can save foreign exchange and we too can make money. Long-nap cotton goods are in great demand as such products rarely appear on domestic markets, so putting one end abroad is feasible. Also, we can take the raw juice from Xinjiang's melons and grapes and send it to the coastal region where they can process it further for export. Our grapes haven't developed well. In 1986 national grape production was 292,000 tons, of which 150,000 tons or 51 percent came from Xinjiang. If we develop our grapes further, make some grape wines and concentrated grape juice and let the coastal region process and package the exports, we can make money. Putting one end abroad is not an impossibility because we in Xinjiang have a unique condition, namely, we are a region of natural resources and we can move many natural resources to the coastal cities. They are much in need of these and after processing them can send them out as exports. There is no need to spend foreign exchange in buying them. As far as the coastal region is concerned, this is putting one end abroad. As far as we are concerned, this is strengthening our horizontal ties. In supporting implementation of the coastal development strategy we have simultaneously developed ourselves. So, we can call this service in support of coastal economic development and while supporting them we develop Xinjiang's economy.

Second, make use of Xinjiang's special geographical and natural resource features and directly participate in international cycles.

Xinjiang is a region rich in natural resources and is situated in a special geographical position. We are located between Europe and Asia and we have over 5000 kilometers of land border. Three ports have already been opened and four or five are in preparation. Exporting products from the east requires transport of 4000 kilometers. Exports to the outside can be made directly from Xinjiang's western and southwestern areas. Open up the western door and there are Soviet Central Asia, Mongolia, and the gulf nations of western Asia. The coastal region faces the flourishing markets of southeast Asia, Japan, Hong Kong, and Macao with abundant funds and developed technology. Although Xinjiang isn't faced

with these kinds of markets, it does face a vast, predominantly Islamic market where requirements aren't high and medium-grade commodities can be sold. In particular, many of the people of Xinjiang share similar customs with people in the Soviet Union. Our melons in Xinjiang are abundant and our light textile industry already has a definite foundation. The commodities they need are not high-grade ones and our products could break into their market fairly easily. I must especially point out that half of China's Islamic population is in Xinjiang and most of western Asia including nations like Pakistan and Turkey are Islamic nations. They would feel much at ease importing products such as foodstuffs from us. Thus, our products would be very competitive. Because we possess this special geographical condition, and on top of this if we were to make use of Xinjiang's natural resource superiority, we could directly develop an export-oriented economy. This economy doesn't put both ends abroad. Most raw materials don't need to be imported. Thus, our foreign trade is opened up multidirectionally, tilting to the west, and exporting to the Soviet Union and western Asia. Of course we can't abandon the eastern markets that have already been opened. We should continue to export traditional products and strengthen development of existing markets. The central government has provided us with policy guidance in this area. Comrade Zhao Ziyang said that any policies for the eastern region which are appropriate for development of the western region will be extended to us. At the commendation ceremony for progress in uniting the minorities he mentioned that "we must give attention to developing the economies in the minority regions; a single-blade knife won't do." Making use of the special policies granted us by the central government and earnestly exercising the laws of regional national autonomy we can activate land-border trade, and we are qualified to do so.

Third, considering the first two points, combine with the eastern region to develop Xinjiang's economy.

In his third point made during his speech at the commendation ceremony for progress in uniting the minorities, Comrade Zhao Ziyang proposed a strategy of mutual assistance. Starting now we should formulate development measures whereby the central and western regions and the coastal region are of mutual aid and assistance to each other and each exhibits its strengths. This is one part of the coastal development strategy and is a distributive measure in implementing the strategy. Thus, it can be said that thinking of the central and western regions and the coastal region as complementing each other would fit in with the spirit of the central government. If we take our semi-finished products to the coastal region for further processing, they will export the products. If they bring their parts to us for us to assemble, we will export the assembly. We will be as two dragons coughing up pearls. This would be good for opening up both sides to the outside and developing the export-oriented economy. Each side exhibits its strengths and shortcomings and both sides are shored up.

In tilting toward the west and developing the economy and trade of the west, we can also perform entrepot trade, directly purchasing the finished export products for them, and earning an appropriate fee. And whatever goods the sister provinces and regions need, we can import for them.

III. We Have the Conditions To Develop an Export-Oriented Economy

I feel that at a minimum we possess the following conditions:

First, we have abundant natural resources above and below ground, as well as in tourism.

These three major natural resources are the material foundation from which we develop the export-oriented economy. Minerals below the ground, scenery above the ground, and high quality products from the agriculture and animal husbandry industries produced from our good climactic conditions provide extremely abundant raw materials for developing exports. The main part of the Silk Road is in Xinjiang and there are four routes that run through to the Soviet Union and the nations of western Asia. This leg of the route has many traces of history and cultural relics and is well suited for developing tours of the mountains, the desert, and the life of the minority peoples.

Second, we're situated in a unique geographical position.

Third, we've already attained fairly abundant technology forces.

We've got 220,000 technologically trained personnel, of which 150,000 work in the natural sciences. This is an internal condition of ours where we have absorbed and assimilated advanced technology.

Fourth, we've already got a fairly abundant material foundation with fixed assets of over \$20 billion and over 5400 factories with complete classes.

This is our advanced material base. Also, we've got such infrastructure conditions as energy resources, transportation, and communications which are continually being improved.

Fifth, Xinjiang's national economy has already developed to a certain level.

Xinjiang ranks first among the five northwest provinces and regions which have developed fairly rapidly in recent years in such areas as per person industrial and agricultural output value and national income. Although Xinjiang still lags behind other sister provinces and regions of the nation, we are confident we can catch up.

Sixth, we have an environment of political stability and minority cohesion.

Seventh, we have preferential policies for developing export-oriented economy and trade formulated on the basis of central government regulations and regional national autonomy law.

IV. Action We Should Take Henceforth

During the course of implementation of the strategy for coastal economic development, if Xinjiang is to expand and develop, then we should attend to the following work items:

First, persist in making reforms.

In implementing the strategy for coastal economic development, it won't do to use old production relations, systems, and regulations. We must make breakthroughs. Above all, we must make breakthroughs in policy. In addition to continuing to deepen agricultural reforms, we must continue to expand self-determination for industrial enterprises, and reform science and technology education, installation of government work organs and minority work. Otherwise, we will not be able to exercise our strengths.

Second, persist in relying on science and technology.

We must think about truly introducing foreign funds and technology and develop our export-oriented economy. If product quality is poor, we will never break into the international market. So, our various departments must pay particular attention to the introduction of advanced technology. We must rely on science and technology to continually upgrade and replace our products and heighten our competitiveness on the international market.

Third, we must attend to improving Xinjiang's soft and hard environments.

To improve the hard environment, we must improve transportation, energy, and communications conditions. To improve the soft environment, we must primarily extend preferential policies to foreign businessmen and give them a profit to seek. Let them make greater profits than they would make in the coastal region and yet we will still come out ahead. For example, foreign businesses in the coastal region make high profits and after paying taxes they take home 70 percent. But foreign businesses here in Xinjiang can only take home 60 percent after taxes. With this kind of policy, foreign businesses will not come here. We can allow 10 percent of profits to be exempt for tax as a form of subsidy to the foreign business and at least allow the foreign businesses to earn as much in Xinjiang as they would in the coastal region. Only in this way can we attract foreign business investment.

Fourth, develop the export-oriented economy. We will be subject to control by the international market and the international market is unpredictably changeable and fairly risky. So, we must strengthen our information forecasting work.

We must research the international market, and simultaneously monitor changes in the international market. Only in this way can we grow and develop.

FINANCE, BANKING

Ministry of Finance Official on Rebuilding Fiscal System

HK2012070788 Beijing JINGJI YANJIU in Chinese
No 10, 20 Oct 88 pp 27-31, 42

[Article by Zhang Zhenbin 1728 2182 2430 of the office of the Ministry of Finance, revised in September 1988: "Rebuilding the Fiscal System on the Basis of Commodity Economy"]

[Text] Now, China's economic development and its economic structural reform are at the crucial stage in its historical period. Development of the times requires us to face the new historical background, to accurately grasp the historical task of reforming the fiscal system, and to select a pattern of fiscal system corresponding to the operation and development of the planned commodity economy.

I. Historical Task and Theoretical Basis of Reform of the Fiscal System

Economic development and structural reform are paired subjects of the economic live of contemporary China. This challenges China's policies toward its fiscal system from two aspects, its economic development and its structural reform.

A basic difficulty in China's economic development is the serious shortage of capital. Industrialization requires an enormous amount of investment as well as capital accumulation, which is a fundamental contradiction for China's reform of its fiscal system, which faces sharp contradiction because of the shortage of capital. In the wake of the development of commodity economy, China's capital accumulation is inevitably developed toward the direction of becoming more socialized, diversified and credit-dependent. Therefore, we are unable to depend on the traditional mechanism of capital accumulation in order to solve the contradiction of capital shortage. Instead, we must establish another mechanism of capital accumulation that corresponds to the new stage of economic development. On reform of the fiscal system, we must get rid of the traditional pattern in which government is the sole subject of capital accumulation, and understand anew the proper role of fiscal work in the process of capital accumulation.

A basic national situation of China is that the economic resources possessed by each person are rather inadequate, and the cost of development is quite high. This thus requires us to basically take the improvement of economic results as the focal point at the new stage of economic development, and to adopt the pattern of extensively developing conservation of resources on the basis of scientific and technological advancement. In this pattern of development, a major obstacle that we must overcome is the ossified storage structure of resources and its readjustment mechanism, so as to reduce the extent of having structurally unused, as well as wastage of, economic resources. On reform of the fiscal system, we must invigorate our assets among our economic resources in stock, establish a new operational mechanism of assets, and promote the circulation and reorganization of the factors of production, particularly the portion in stock.

The extent of economic development by any country is ultimately limited by the market demand and the supply of resources. In order to solve problems concerning the limits on supply of resources, one must optimize the allocation structure of resources at the macroscopic level, and conserve the consumption of resources at the microscopic level. In order to solve problems concerning the limits on market demand, one must exercise effective control, guidance and readjustment of the market demand. As China's economic growth at its new development stage is gradually switched to the pattern of being market-oriented, the influence of market demand on its economic development is becoming more important. Therefore, we must find a solution for the issue concerning the pattern for organizing and guiding the market demand during our structural reform, for fiscal work is one of the basic means for readjusting the macroeconomy.

Proceeding from this viewpoint, China must, under the new historical conditions, accomplish three economic development tasks, namely the reconstruction of its capital accumulation mechanism, readjustment of its resources allocation structure, and an effective guidance of the market demand, in its reform of the fiscal system.

Reform of the fiscal system also faces harsh challenges from the comprehensive reform of the economic structure, of which the basic trend is the development of commodity economy. Therefore, we must solve a series of problems concerning the establishment of the commodity economic structure: (1) The principal task of China's economic reform is to solve problems that have emerged in the market under the condition that the commodity economy is yet to be developed and has long been discriminated against by the planned economy. In other words, it concerns the formation of a uniform, open, and impartially competitive market system within the whole society. This thus requires that we must start building the fiscal system again, which is based on the planned economy; and establish, in accordance with the

basic requirements for developing the commodity economy and a perfect market mechanism, an impartially competitive, uniform, and open fiscal system in which the market system operates in an orderly manner. (2) The core of China's economic reform is to strengthen the vitality of enterprises. Particularly, it is to make enterprises owned by the whole people, which play a major role in our economic life, become independent commodity producers who assume sole responsibility for their own profits and losses. Our practical work of reform has shown that in order to accomplish this mission, we must accomplish a fundamental change in the ownership system of state-owned economy, as well as the operation mechanism of assets. This thus gives rise to the issue about sorting out the ownership of the state-owned assets in our reform of the fiscal system; the issue about the role, and ways to give play to the role, of our fiscal work in the new operation of state-owned assets on the basis of planned commodity economy, which we must solve in our reform; and the issue about ways to clearly classify the ultimate ownership of state-owned assets so as to form a main structure of ownership corresponding to the operation of commodity economy. (3) Under the conditions of planned commodity economy, the ways adopted by the government to indirectly readjust the economic operation are mainly to coordinate the economic relations of various economic parties by means of various macroeconomic policies, to maintain an orderly and balanced market, and to guide enterprises by means of the market. Therefore, we face in our fiscal work, which is an important component of the governmental economic readjustment organ, the issue of undergoing fundamental changes in indirect readjustment on the basis of market operation.

The background of our economic development and structural reform determine that reform of the fiscal system must be on the basis of socialist commodity economy, and voluntarily rely on and apply the law of value. This is the basic theoretical basis of reform of our fiscal system. Like the whole economic system, the traditional fiscal system exists as an opposite of the commodity economy, and basically negates and discriminates against the law of value. Therefore, it is significant that in terms of our guiding ideology, we should voluntarily rely on and apply the law of value when reforming the fiscal system.

When we voluntarily rely on and apply the law of value in our reform of the fiscal system, we must make new judgement on the structure of economic benefits in the socialist economy. Under the conditions of commodity economy, the structure of economic benefits of the whole society is built amidst the mutual constraint of partial interests and individual interests. In our reform of the fiscal system, we must first acknowledge acts of pursuing individual interests and partial interests by various grassroot economic units (particularly enterprises) and the government at various levels. Being the basic system for readjusting the distribution of national income, the fiscal system must accept the economic interests of every

independent economic unit and, on the basis of which, their economic pursuits take place, and accept various local governments' economic interests which are independent of the central government and, on the basis of which their economic pursuits are based. In other words, the basis of economic interests of a society is in a diversified pattern rather than a uniform one. The basic issue that we should resolve in our reform of the fiscal system is, under the precondition of accepting the diversification of economic interests, to coordinate these economic interests and to prevent it from conflicting with the overall interests by means of standardized norms.

When we voluntarily rely on and apply the law of value in our reform of the fiscal system, we must clearly classify again the economic function of fiscal work under the operation of commodity economy. In the planned commodity economy, the fiscal work is no longer the omnipotent accountant in charge of the economy. Instead, it is the major economic organ of the government in exercising the macroeconomic readjustment. It focuses on the formation of macroscopic fiscal policies and the readjustment of economic indexes, rather than the formulation and issuance of various specific economic quotas. Therefore, the starting point of our reform of the fiscal system is no longer the perfection of the distribution relations, as we did in the past. Rather, we must base ourselves on the macroeconomic readjustment of effectively giving play to the role of the fiscal work.

When we voluntarily rely on and apply the law of value in our reform of the fiscal system, we must establish an operation mechanism of fiscal capital that corresponds to the principle of commodity exchanges. The development of commodity economy provides a totally new economic horizon for manoeuvring fiscal capital. It requires us to re-select a new economic mechanism for realizing the circulation of fiscal capital, particularly the mechanism of credit dependence, so as to improve opportunities of the issuing market and circulation market of government bonds, to expand the scope and scale of compensatory use of fiscal capital, and to improve the economic results of the use of fiscal capital. Under the market pattern, the operation of economic life of the whole society, in particular, the continuous development of credit economy, provides us with new opportunities to select the operation mechanism of fiscal capital. It may help our fiscal system enter the new realm of modern commodity economy characterized by the credit economy.

II. Basic Framework of Fiscal System on the Basis of Commodity Economy

In order to accomplish the historic task of reforming the fiscal system, to simply amend the traditional and the current fiscal systems is far from enough. We are facing a new task of rebuilding it. We must rely on and apply

the law of value, and realize the fundamental changes in the fiscal system in accordance with the objective requirements of the commodity economy.

To a developing country such as China, the government plays a indispensable role of economic coordination and strategic guidance in the whole process of industrialization. But this by no means indicates that the government may, in the capacity of being the basic subject of the industrialization of the whole country, directly undertake the whole task of industrialization. In particular, we cannot hold that for the sake of its economic development, China must continue to follow the road of taking the state as the major subject of basic accumulation. At the new development stage, the major subject of the basic operation of economic life of a society is enterprises in the capacity of commodity producers. Commodity producers are to develop ways to invigorate the economy in the course of developing commodity economy. Their basic point is to make enterprises become the principal subject of development, which independently undertake the capital accumulation needed by the industrialization of national economy. The basic contradiction encountered in our reform concerning the invigoration of enterprises is that the motive of enterprises for accumulation is not enough, and they ignore the long-term economic development. To a very large extent, this is related to the thoroughness of reform of the economic system. On the fiscal system, it is impossible to fundamentally change the old mechanism of economic development by simply cutting taxes and profits before we have any definition between the government and enterprises concerning the scope and limitations of economic activities. Under the new conditions, we must clarify that the fiscal work of the state will basically no longer undertake the accumulation of capital. In particular, it will not raise funds for profit-making construction undertakings. Rather, the government will hand over to enterprises the function of expanding the reproduction of the whole society, while undertaking the role of giving guidance and coordination. If it does not hand over the function to enterprises, there is no reason to hope that enterprises may act on their own accord and utilize more funds for the expansion of reproduction, which aims at the increase of asset value.

The transfer of such a function from the state to enterprises and society is an important characteristics of China's economic development at the new stage. Will this adversely affect the development of key construction undertakings? I don't think so. This is because: (1) Most of the current key construction projects are prohibited by the government from undertaking, instead of being unable to be undertaken by enterprises. In many areas, there are man-made structural obstacles which are caused by enterprises. (2) That some key construction projects are not undertaken by enterprises is because they yield far too little profit under the current pricing structure, rather than owing to their incapability or lack of interest. Provided that we put an end to the distorted pricing structure, enterprises will be enlivened and

undertake the projects. (3) Even those key construction projects invested by the state are eventually undertaken by enterprises. The point is whether or not it is really related to the immediate interests of enterprises, and whether or not the enterprises can make their own decisions on their economic activities. (4) Though certain enterprises themselves really cannot individually undertake some key construction projects, their combination, together with their own decision-making power, is completely capable of undertaking them. In particular, in the wake of development of the credit economy, the accumulation of capital will be eventually socialized, thereby removing the obstacles that hinder the scale of accumulation by some special trades.

The work of assigning to others the process of capital accumulation does not indicate that the financial work will be totally withdrawn from the realm of economic construction. Proceeding from the current situation, the state must undertake its financial work in the following two aspects, in addition to meeting the general public needs. The first one is non-profit-making investment activities. Such activities will derive losses if we judge only from their economic results. But they yield enormous external economic results, particularly the indirect results at macroscopic level. Under the circumstances where the market mechanism of commodity economy cannot completely convert this kind of macroeconomic results into the economic results of such investment activities themselves, we can only have the state undertake such activities in its financial work. The other one is investment activities playing an exemplary role for and having guiding effects on the readjustment of the economic structure. The task of readjusting the economic structure encountered at the new development stage requires that the government must formulate correct policies on industries. Moreover, in addition to depending on various economic means, it is very important that the government should directly engage in investment activities. The government may directly invest in newly developed industries which indicate the trend of future development, when many enterprises still find it difficult to contemplate the prospects of such industries or they still cannot make up their mind on such industries. Therefore, the investment activities of the government will guarantee from these two aspects the macroeconomic economy and social environment needed by the economic activities of various enterprises, as well as those of the whole society. It will also guarantee a rational readjustment, as well as continuous optimization of the economic structure, and help the government take initiative in the process of strengthening the structure of industries.

Therefore, the basic pattern of China's fiscal system should be the integration of fiscal work about public demand and that about economic construction. Strictly speaking, it is the integration of fiscal work about public demand with that about structural readjustment, while the former is the basic point.

The task of reallocating the factors of production, which must be achieved at China's new stage of economic development, must enable the current resources of assets to be flexibly circulated, and establish a flexible and effective operation mechanism for public assets that corresponds to the commodity economy. The key to achieving this is to straighten out again the ownership relations of public assets, particularly the relations between the state and state-owned enterprises. Under the present commodity economic conditions, the ownership of the means of production has, in most cases, been separated from their right of operation. Not only can the right to use the means of production be separated from the right of ownership, their right to make decisions and the right of lien, and even the right of direct possession, can be separated from the ultimate ownership. Proceeding from our situation, this will gradually become a rather common separation, provided that China's reform of its economic system develops along the road of developing commodity economy. Under this situation, the ownership of state-owned assets by the government is mainly the right to receive benefits derived from monetary assets, as well as the ultimate right of lien. Provided that users of such assets can prevent the sum of value of state-owned assets from dropping, and guarantee that they can realize the right to receive economic benefits derived from assets by the government in the capacity of owner, they will no longer be obstructed by the owner's restrictions on the use and disposition of assets. Therefore, China originally has two basic sources of fiscal revenue because of the objective existence of the ownership of the means of production by the state: the first one is benefits derived from the state-owned assets; and the second one is general taxes collected by organizations vested with the state power. Hence, the main pattern of China's fiscal system is to separate profit delivery from taxation.

Though the benefits derived from the state-owned assets accounts for a lion's share of China's fiscal revenue, this does not indicate that our fiscal system includes the operation and direct operation of state-owned assets. In the mechanism of commodity economic operation that separates the two rights, if we think the fiscal work plays a certain role in the macroscopic control of state-owned assets, this role is to achieve an indirect readjustment of the sum of state-owned assets. In other words, it is to ensure the perfection and increase of the assets' monetary value, to formulate macroscopic fiscal policies favorable to the implementation, and to readjust the circulation and reorganization of state-owned assets, particularly the portion in stock, in the market. Compared to the production-operation fiscal work formulated under the traditional system, we may summarize such fiscal system as the fiscal work for asset readjustment.

Therefore, in terms of source of revenue, the main pattern of China's fiscal system should be the unification of the benefits derived from assets with revenues derived from

duties and taxes, or the asset readjustment-type fiscal work with the separation of profit delivery from taxation as the starting point.

In fact, China's current state ownership is the ownership by departments and localities, and it seems that the state ownership in its genuine form is absent. The ownership relations concerning state-owned assets are confusing; this is important. Therefore, when straightening out the ownership relations concerning the state-owned assets, we must not simply separate the rights of the state from those of enterprises. In addition, we must take into full consideration the internal structure of the state, which is the ultimate owner, and further straighten out the ownership itself. The task in this respect is more arduous and complicated than the separation of rights of the state from those of enterprises.

On the confusing state of the subject of ownership under the state ownership, some people put forward a suggestion of centralizing the ownership in our reform, and centralizing the ownership of state-owned assets by various departments and localities to an "administrative organ for state-owned assets." This kind of reform thinking is actually inconsistent with the direction of developing the socialist commodity economy. (1) Being a large developing country, China objectively faces uneven economic development among localities and departments, which determines the special functions to be played by various localities and departments in their economic operations. (2) Proceeding from the economic development in the future, it is very difficult for us adopt a balanced development strategy, be it on structural readjustment or on aggregate growth, which thus also assigns localities and departments with special missions in the areas of organizing and coordinating economic development. (3) There are relatively independent regional market structures in China's economy, and the market system of the country as a whole is formed by mutual opening up and mutual constraints of these markets. (4) Conforming to the characteristics of regional operation in China's economy, the macroeconomic management is also marked by its regional and level characteristics. (5) Any form of interest pattern in any economy on the basis of an existing pattern of possession of assets is irreversible in nature, which is the realistic starting point for our reform. All these circumstances determine that in China's state-owned economy, the state in the capacity of the owner of assets is actually a structure made of levels of organizations. In particular, its characteristics of having regions and levels are of more importance. Therefore, when we straighten out the ownership relations concerning state-owned assets, it would be better for us to clarify the nature of diversification, and clearly classify the ownership of state-owned assets by various departments and regions, rather than clarifying the nature of centralization. On this basis, we should establish a market-oriented operation mechanism for the assets, and allow the transfer, as well as the purchase and sale, of these assets. Proceeding from this

viewpoint, on the issue of handling the ownership relations of the current assets in stock, we should adopt the "system of ownership diversification" for our reform of the fiscal system. In particular, we should divide the ownership by government at various levels into ownership at multiple levels, clarify the ownership of state-owned assets by the central, provincial, prefectural and county levels, and change the unitary ownership of state-owned assets into a diversified one, so as to put an end to the situation where the subject of asset ownership is not in its proper position.

The diversified ownership is actually related to a diversified taxation system. We hope that through the method of diversifying taxation system, we shall standardize the fiscal relations between the central and local authorities, thereby eliminating the obstacle of being a closed-type economy in terms of taxation system in the commodity economic development among regions. Therefore, the diversification of taxation system is an important direction of our reform of the fiscal system. If we proceed from the viewpoint that our sources of fiscal revenue are revenue derived from assets and general taxes, however, such system cannot solve all problems. The relations between the central and local authorities concerning distribution of revenue derived state-owned assets cannot be solved by depending on the taxation system. The precondition for handling the distribution relations concerning revenue derived from assets is a clear classification of ownership of assets; and hence the diversified ownership also correctly handles the objective needs of the fiscal distribution relations between the central and local authorities under the condition of separating profit delivery from taxes. At the same time, a basic precondition for diversifying the taxation system is the classification of economic authorities between the central and local authorities. To the part of state-owned economy, the important content of this kind of classification of economic authorities rests with the classification of state-owned assets. Proceeding from this sense, the diversified ownership is also a precondition for diversifying the taxation system.

Therefore, the overall framework of China's fiscal system should be the unification of diversified ownership and diversified taxation system, or to put it in other words, it should be the fiscal unification of diversified ownership and diversified taxation system with the former being taken as the starting point.

Most of China's problems encountered in its economic development are emerged from its aggregate social demand. On the one hand, China's mechanism for its economic growth is being switched from the one propelled by supply onto that by demand, and the guidance on effective demand of the market plays an important role of guiding the direction of economic growth and structural change, but it faces at the same time the fact that there is limited demand in China's market for labor-intensive products needed by the switch of labor from agriculture to non-agriculture industries. On the

other, there objectively exists in China's economic life the pressure of having an excessive growth of consumption demand and investment demand. In particular, the development of intermediate products and intermediate industries is so brisk that the great demand on primary products and primary facilities is confined by the limited supply of capital. Therefore, after the fiscal work no longer plays the role of capital accumulation in the traditional system, its core function will inevitably be switched onto the coordination and guidance of social demand, onto the formulation and implementation of effective macroscopic fiscal policies, and onto the readjustment of aggregate social demand, forms of and changes in the effective demand of the market, as well as the process and mode of reaction by various commodity producers to the market demand through such economic levers as taxation, budgets, public bonds, and subsidies. This requires us to get rid of the old fiscal practice of capital distribution and to switch to the readjustment of policies.

Therefore, the core function of China's fiscal system must be switched from capital distribution onto the readjustment of fiscal policies.

The continuous development of socialist commodity economy, particularly, its development from the general monetary state to the modern credit-dependent state, provides basis for changing a new economic life in our fiscal system. The full-scale development of credit-dependent economy puts forward at least two tasks in our reform of the fiscal system: The first one is how to let the credit of the government function in the financial market, and let the government exercise effective macroscopic control over it. The second one is how to let the favorable conditions of a credit-dependent economy achieve a balance in revenue and expenditure, and, by taking this opportunity, to affect and coordinate the operations of funds of the whole society. Proceeding from the former, the credit of government may, through the switch of capability of actual payment, lead the circulation of economic resources of society, and therefore becomes an important economic lever in the readjustment of social economic life. At the same time, the credit of government is an indirect transfer of the aggregate demand of society, which helps our fiscal work exercise effectively supervise management, and readjust more flexibly and fully the operations of social capital in a more extensive realm. To the latter, if we adopt the mode of credit dependency to make up for any fiscal deficit in an economic system market by a developed credit system, we shall neither change the scale of aggregate demand of society nor increase the monetary amount of the economy, which is favorable to maintaining economic stability. Proceeding from China's special market situation, in which the aggregate demand is greater than the aggregate supply, the mode of credit dependency is obviously of particular significance. The case is still true under the circumstances where the importance of distribution structure of national income has sharply dropped.

Proceeding from a wider perspective, China's fiscal trend of credit dependence may also be reflected by its revenue and expenditure. We may assume that in future, our revenue derived from assets may totally come from the financial market, in addition to general taxes which are mainly collected in monetary terms; and our fiscal expenditure may also be realized through the purchase of financial assets, in addition to the realization in monetary terms. This in fact indicates to us that credit dependence of the fiscal work may become one of China's important theoretical and practical issues in our fiscal and financial reforms.

Therefore, the state of China's fiscal system should be the unification of monetary state and credit-dependent state, or to put it in another way, the unification of monetary fiscal work and credit-dependent fiscal work with the latter as the starting point.

A summary of the above mentioned aspects will thus form the framework of our new fiscal system basing on which is China's socialist commodity economy.

Report on Shanghai's Financial Reform
40060042 Beijing ZHONGGUO JINRONG [CHINA
FINANCE] in Chinese No 9, 4 Sep 88 pp 33-35

[Article by Wang Shihao 3769 0013 6275: "Financial Reforms—a Quiet Financial Revolution"]

[Text] The past few years of fragmentary reforms of Shanghai's financial system have evolved into coordinated reforms encompassing the financial market. This sudden advance has prompted close attention both within China and abroad and has been called "a quiet financial revolution." In 1987 the State Council stated that Shanghai would be one of China's experimental cities for financial reform, which caused Shanghai's financial reforms to take big steps in breadth and depth.

The Financial Markets Have Advanced Another Step Towards Completion and Expansion.

In 1986 convertible loan markets, foreign exchange adjustment markets, securities markets, and discount markets emerged one after another in Shanghai. However, since each existed on its own, there was a problem of lack of interaction. To move forward in building a complete financial market organizational structure and to broaden the scope and usefulness of the market, in January 1987, under the unified direction of the Shanghai branch of the People's Bank, a unified Shanghai financial market made up of 74 Shanghai financial institutions was established. In 1987 this market finalized 30 billion yuan in short term capital convertible loans, thereby regulating shortages and surplus of capital.

In May of 1987 the Shanghai branch of the Communications Bank led the way in establishing the "Shanghai economic district capital market," composed of 18 specialized banks in Shanghai economic district. This market currently has 50 member banks, and in 1987 the handling capacity of convertible loan capital already exceeded 10 billion yuan. The Shanghai economic district capital market, under the Communications Bank, is an intangibles market. It works in concert with the tangibles Shanghai capital market established under the Industrial Bank, together working for the prosperity of Shanghai and the economic district, and having a lot to do with promoting the development of Shanghai's financial center.

In the beginning of 1987 the city's Industrial and Commercial bank led the way in organizing the "Beijing, Tianjin, Shanghai and the 'Shanghai Economic District' Industrial and Commercial Bank lateral capital accommodation network." In August 1987 they also established a lateral capital network made up of 19 participating Industrial and Commercial branch banks in the Shanghai economic district. The two above-mentioned capital networks make the best use of China's largest specialized bank. The Industrial and Commercial Bank's substantial capital strength has had a very active promotional effect on adjusting capital shortages and surpluses within the district and transmitting financial information.

External Financial Activities Have Taken a Big Step

In 1986 Shanghai's Investment Trust Company went for the first time to Tokyo's financial market and raised one million dollars, and after that in 1987 a certain number of financial institutions from Shanghai again entered into international financial market activities. In the last part of April, Shanghai's Bank of China issued for the first time 100 million dollars worth of bonds on Singapore's international financial market, raising foreign exchange for the city. In the middle of June the city's Construction Bank entered into international financial markets and formally signed a foreign exchange loan contract with a consortium including 41 foreign banks from six countries, and raised 242 million dollars for Shanghai's 300,000 ton ethylene engineering project. The payment period and loan structure were both quite reasonable, and the loan conditions were quite favorable. This was the largest external financial activity that Shanghai had ever engaged in since the founding of the country, and it attracted the attention of the financial community in China and abroad. And from the beginning to the end, there were media from several countries that reported on the event and made analyses. In October of the same year the city's Communications Bank for the first time cooperated with the foreign exchange banks and together they made available foreign exchange loans for the city's enterprises of three capital sources.

Establishing a Multilayered Financial System

By the end of 1987 Shanghai's financial system had already basically formed into five administrative levels. The first level is the People's Bank of China Shanghai

branch, that serves as the region's central bank. The second layer is composed of the six banks, the Industrial and Commercial Bank, the Agricultural Bank, the Bank of China, the Construction Bank, and CITIC. The third level is all the types of financial institutions that are not banks, and central to these are the Shanghai Investment Trust Company, Shanghai Ai Jian Financial Trust Investment Company, Shanghai Insurance Company, Shanghai Postal Currency Storage Bureau, Jin Jiang Group Financial Company, four leasing companies and five investment trust companies that separated from the specialized banks. The fourth level is the 250 or more village credit cooperatives that are either geared towards collective or individual economics. The fifth layer is the four overseas Chinese foreign exchange banks, the Hui Feng, Mai Jia Li, East Asia, Hua Qiao, and the offices of the 31 foreign commercial banks and securities companies that are established in Shanghai. In this way, the more than 1200 financial operational network points spread throughout the city and environs and 30,000 people working in finance have already established an initial foundation for restoring Shanghai's position as a financial center.

The Scope of Direct Finance Has Again Advanced a Step

By the end of 1987 there were already more than 1670 enterprises throughout Shanghai issuing bonds, stocks, and fused currency bonds with a total value of two billion yuan.

As stocks and bonds were issued in large quantities, Shanghai's trade in securities in 1987 also developed quite a bit. At present there are eight places engaging in counter trade and within the 1987 authorization, there were seven kinds of city enterprises stock being traded, and the authorization allowed eight kinds of bonds and financial bonds for enterprise trading. In this fashion, there are already 15 types of securities authorized to be traded in this city. In 1987 Shanghai's eight locations of counter trading together completed more than 7000 transactions, total value exceeding six million yuan, which gradually changed the situation of 1986 where securities trade was "tangible but lacked a market."

Financial Tools Continue To Become More Varied

After Shanghai's Communications Bank took the lead in carrying out transfer of large denomination savings bonds for the whole country, in 1987 the Industrial and Commercial Bank, Agricultural Bank, Central Bank, Investment Companies, and the Ai Jian Financial Company gradually pursued the transfer of large denomination savings bonds. The Shanghai Bank of China came out with the new idea of large denomination time certificates of deposit for work units and fixed deposit certificates for individuals. Shanghai's Industrial and Commercial Bank, Agricultural Bank, Construction Bank, and Postal Savings Bureau also put forward new types of savings certificates with premiums, such as the

Industrial Bank's Fiat Bridge Car Savings Certificates with premiums that stimulated great interest on the part of Shanghai citizens where people waited on lines around the clock to purchase them.

In 1987 Shanghai's financial markets again increased Industrial and Commercial Bank's bonds with graduated interest rates, Communications Bank's bonds, Agricultural Bank's bonds. Moreover they increased six types of enterprise stocks and three types of enterprise bonds. It is worthwhile pointing out that in 1987 Shanghai's financial community introduced a new form of financial apparatus—enterprise fused capital bonds, which was introduced for the first time.

In 1987 Shanghai's financial community also initiated the Postal Savings National Complete Savings Certificate and the three provinces of Jiangsu, Zhejiang, Anhui and the Shanghai Municipality all use unified account books. The city's Bank of China also initiated a Great Wall credit card. At the same time, Shanghai's financial industry greatly expanded the accepted draft industry, making the draft discount rate reach over three billion yuan.

Banks and Enterprises Start To Interact; Blending and Permeation

Along with the deepening of reforms enterprises badly need to solicit financial support from banks in order to develop and grow on their own, and the banks, in order to assure the safety of their own money, also strongly require that they participate in enterprise management, mutual economic profits, and objective requirements, causing banks and enterprises to continuously interact and permeate each other. In 1987 the city's Industrial and Commercial Bank and Construction Bank both actively assisted the city's light industry and in the textile industry they initiated a "capital adjustment center," regulating shortages and surpluses of capital within the industry. The city Construction Bank started investment in more than 10 raw materials and industrial enterprises with a value of over 10 million yuan. At the same time the enterprises in the city also started investing in the financial industry—the most typical example being when more than 100 large and medium size enterprises got together and purchased one billion yuan of stock issued by the Communications Bank. Shanghai's financial industry actively participated in this city's first accounting company—the Jin Jiang Accounting Company, which has already started doing business.

The Banks Have Mutually Started Up a Large Group of New Financial Businesses

Taking advantage of this past year's situation on the international financial market where currency rates have fluctuated greatly, Shanghai's Bank of China in 1987 started a forward exchange buying and selling business, helping the city's enterprises to disperse and avoid foreign exchange risk. In half a year China set up over 50

and over \$30 million of exchange rate loss. The Industrial and Commercial Bank, Construction Bank, and Agricultural Bank, according to the actual conditions after the administrative company was eliminated, implemented a mortgage loan experiment for enterprise technological transformation loans and operating fund loans. Collateral included movable property, immovable property, and negotiable securities. The Industrial and Commercial Bank also tested a documentary service. In order to even more completely establish the principle of "distinguish treatment and select the best to support it," the Industrial and Commercial Bank also started an enterprise credit appraisal service. The Construction Bank started an information service for bids that have been invited and tendered for engineering projects, and by investigating price setting for the enterprises, they examined and reduced excessively high price setting fees by more than five million yuan, the average amount of reduction was 2.5 percent, through budgetary estimates and budget services, the percentage of construction costs saved reached 8.2 percent, and construction time was reduced by approximately 10 percent. Under the direction of the city's People's Bank, the city's clearing house from July of 1987 on, organized a direct transmission exchange of unified bank certificates for eight adjoining cities such as Suzhou, Wuxi, etc., with Shanghai as the center, and in a half a year they exchanged over 180,000 such letters. According to estimates, each day it shrunk traveling capital by four million yuan and transaction time was accelerated suddenly by two days, therefore saving a recognizable quantity of capital.

Each Financial Institution Breaks Up Specialized Monopolies and Business Competition Can Develop Broadly

In 1987 the whole domain for foreign exchange, note discounting, foreign goods loans, loan services, and savings services of each of Shanghai's financial institutions all developed complete overlap and initiated competition. On the foreign exchange side, in 1987 the Industrial and Commercial Bank, Agricultural Bank, and Construction Bank all established foreign exchange savings, loans, withdrawals, and transaction services, making it so that all of Shanghai's financial institutions (18) all started up foreign exchange business, fulfilling Shanghai's requirements of opening to the outside world. In the savings business, with the Shanghai Bank of China, Construction Bank, and Postal Savings Department, which have only been open one year, to strengthen the network and the old traders in the savings market, the Industrial Bank and Agricultural Bank, competition has developed. In the area of foreign exchange loans, after consulting with the specialized banks, the Industrial and Commercial Bank, the Agricultural Bank, and the Communications Bank all got into an import-export company, and thereby broke up the monopoly that the Bank of China had held in this area for several decades. In 1987 the Communications Bank and the Ai Jian Financial Company established an insurance department, breaking up several decades where the city's

insurance company alone handled all insurance, bringing competition into the domain of a new industry.

The Bank Enterprise Reforms Continue To Deepen

First, personnel management reforms occurred. Each bank, according to the principles of cadre ranking, released the cadre management authority line. In addition, they instituted ranked cadre responsibility system and responsibility period goal system experiments. In setting the foundation for technical profession titles and administrative business positions, they implemented a cadre employment system.

Secondly, they started up a savings contract responsibility experiment. In the beginning of July 1987 the Industrial and Commercial Bank chose 13 savings contracted test points, making changes to the contracts. Absorbed savings went from pushing to attacking, internal management went from lax to strict, counter service went from cold to hot, holding management went from frightened to daring, the work quality went from low to high, the savings rates of the 13 contracted units reached 64 percent, exceeding the average level for the whole city.

Third, high level reforms concentrated on the credit management system. Instituting a loan approval responsibility system greatly opened up loan approval rights at the grassroots level and convertible loan rights. At the same time it moved loans and convertible loan capital risk responsibility down to the grassroots level of the work unit.

Fourth, reform profits divided up the system of "eating from the same pot." After reforms, the profit retention system was divided according to within the total plan profit retention quota, separately according to set level profit ratio, and setting it so that the part exceeding plan could raise the profit ratio. If the plan is not met, that portion of profits is confiscated, which thereby pulled open the differences in allocation. As far as the three programs capital allocation utilization rights of profit retention goes, it also completely released the levels, changing the system of money use in the past where the city's financial departments had to slowly give their approval.

Fifth, the financial capital goal management responsibility system was tested. All of the departments belonging to the Industrial and Commercial Bank's capital management methods where capital, expenses, and profits goals are the content. Each department breaks down the quotas to small local branches, savings banks, and guizu [2681 4809]. Since instituting it, each district office sends people every day to the branch to get short term cash loans, taking the divided up savings and concentrating them to the lowest levels, thereby saving interest expenses and digging out capital potential.

The Local Central Bank Centralized Adjustment Mechanism Strengthens Another Step

The People's Bank of China, Shanghai branch, at the same time that the financial reforms were activated, continuously strengthened and perfected all aspects of management capabilities of the central bank.

One aspect of this is the Shanghai People's Bank no longer allocated capital to the specialized banks, requiring that they all strive for balance, and making it so they could no longer eat from the big pot of the People's Bank. Moreover, by reducing temporary loans, opening up discount business they brought the specialty banks into the market. Another aspect is also through the three main measures of Central Bank's discount rate, savings reserves, and the open market business, they have exercised control over society's capital flow, and activated the local central bank's adjustment effects.

In addition, in 1987 the city's People's Bank also promulgated 20 areas of financial regulations, causing the whole city's financial reform behavior to become regulated, and in the legal area and in administrative management, it provided direction and assurance for financial system reforms.

MINERAL RESOURCES

Private Gold Mining Banned

OW0611044888 Beijing XINHUA in English
1522 GMT 5 Nov 88

[Text] Beijing, November 5 (XINHUA)—The State Council has issued a circular banning individuals from mining gold.

Xu Daquan, director of the State Gold Administrative Bureau, told reporters today that this is an important measure to ensure stable gold production.

According to the circular, no one will be allowed to mine gold without permission from the bureau, and no licenses for mining gold will be issued to any individual in future.

In addition, private gold smelting and sales are also banned.

China's gold output has increased at an average rate of 10 percent annually in the past ten years and 380 gold mines were developed between 1986 and 1987.

However, with the entrance of individual gold miners into the industry, smuggling has robbed the state of much-needed revenue. Some 4,000 cases of gold smuggling came to light and 640,000 grams of gold were seized throughout the country in the past 18 months.

There are 300,000 individuals who have licenses for mining gold, but many more are operating illegally.

INDUSTRY

Light Industry To Step Up Production Pace 40060115a Beijing JINGJI XIAOXI in Chinese 21 Oct 88 p 1

[Article by Cai Xue 2088 1331: "China Will Revise Production Priorities and Step Up Production Pace for Light Industry, Vigorously Expanding Exports and Building More Infrastructure Projects"]

[Text] At a national light industry fixed asset investment planning conference, China's Ministry of Light Industry reviewed the plans that it carried out in the first three years of the Seventh 5-Year Plan, making preliminary plans and setting work priorities for light industry production and construction in 1989 as follows:

1. Production Pace: The predicted goal for 1989 is a 10 percent increase over 1988, and the planned priorities include machine-made paper and cardboard, sugar, crude salt, refrigerators, agricultural plastic ground cover, and synthetic detergent.
2. Foreign Trade Exports: The original goal in the Seventh 5-Year Plan to earn \$8 billion in foreign exchange from exports in 1990 has been revised to \$10 billion. Eleven leading export products, i.e., shoes, toys, leather and fur goods, packing cases, cans, ceramics, bicycles, clocks and watches, hardware, electric fans, and handicrafts, are expected to earn an average of \$500 million in foreign exchange each.
3. Fixed Asset Investment Plans: The management priorities for the last 2 years of the Seventh 5-Year Plan are to be responsible for formulating investment policies, plans, and directions, planning the distribution of trades, and setting and revising the local investment scope and composition. After projects are examined and set up, they will be contracted to localities subject to inspection and supervision by the Ministry of Light Industry. Large, medium-sized, and above-norm projects must be submitted to the Ministry of Light Industry for preliminary examination and then to the State Planning Commission for examination and approval. Projects that have not undergone preliminary examination or not been approved will not be included in investment plans by the State Planning Commission. Ordinary small, below-norm projects may be examined and approved by localities according to light industry investment policies, plans, and the set local investment scope and composition.
4. The Basic Principles for Light Industry Fixed Asset Investment in 1989 Are as Follows: To guarantee continued construction of and investment in projects and finish them well; to give priority to planning projects that have good results in earning foreign exchange from exports and increase the number of light industry products that earn foreign exchange from exports; to give priority to planning projects that digest and absorb

products made in China, and improve the quality of light industry's technical equipment; to choose and support development of the best fast-selling and well-known products and improve market supply; to support the development of new technology and projects and the industrialization of S&T achievements; to improve the investment and planning for projects that use light industry raw materials, special raw and processed materials, and basic sets of components; to support the interior, poor areas in particular, and use local advantages to develop key industries and expand the economy.

SMALL-SCALE ENTERPRISES

Economist Advocates Developing Private Economy 40060105 Beijing JINGJI CANKAO in Chinese 21 Oct 88 p 4

[Article reprinted from XIANDAI RIBAO 13 Sep 88: "Li Yining Advocates Vigorous Development of Private Economy"]

[Text] At the invitation of the Hunan provincial government, famous economist and Beijing University professor, Li Yining, recently conducted a 20-plus-day inspection in the cities of Changsha, Changde, Yuanling, Jishou, Fenghuang, and Yueyang. In the more than 10 speeches that he gave on his trip, Li Yining advocated the vigorous development of a private economy, which he felt would be a major way to invigorate Hunan's economy. He proposed that state-owned enterprises at the county level and below that could, should change into shareholding enterprises.

When discussing the prospects for developing a private economy in China, Li Yining said that a consensus of opinion has not yet been reached on this issue and that the differences of opinion in academic circles are quite obvious, with some even being antagonistic. One viewpoint is that for China, in its present stage of development, the existence and development of a private economy is certainly necessary, but a private economy is, after all, a very temporary thing. From now on, along with continued improvement in the level of the productive forces, continued development of a commodity economy, and continued expansion of the public economy, the private economy will decline after developing to a certain point, being greatly restricted at first and finally abolished.

Expressing his disagreement with the above viewpoint that "The reappearance of a private economy is merely an episode in China's present economic growth," Li Yining said that China's future economy will be a diversified one, with the private sector being an integral part which will exist for quite a long time. This diversified economy will be suited to socialism with both a low and a high level of productive forces. In other words, as long as it is still a socialist society, it will certainly include a private sector.

Li Yining emphasized that in China's future economy, the private sector will coexist with a new system of public ownership but not with the traditional state-owned and collective enterprises. It will not necessarily be a passive force, but will have mutually complementary and promotional relations with the new public economy. These relations will be realized through market forces.

Li Yining also proposed a "limiting value" for the percentage of China's future economy that the private sector should account for. On a macroeconomic scale, the output value of the private sector should generally account for less than one-third of the whole economy, but should absolutely be able to exceed this in some sectors and regions.

It is said that China now has approximately 225,000 private enterprises, whose output value still accounts for less than one percent of the GVIO throughout China. Thus, Li Yining said that we are certainly not concerned that the private economy will grow too quickly or vigorously, but that it may meet too much resistance in the course of its growth, that a series of steps (including management measures) that are necessary to its growth will not be taken in time, and that short-term attitudes generally exist among industrial and commercial enterprises that are engaged in private economy activities.

Li Yining advocated the use of macroeconomic regulation measures (such as a progressive private enterprise profit tax) to restrict private enterprises. Private enterprises would naturally determine the scale of their business based on their after-tax profit margins. Owners of private enterprises can also be restricted by progressive individual income taxes and inheritance taxes so as to avoid too great disparities in social income distribution.

COMMERCE

Recent Analysis of Country's Computer Markets

40080056A Beijing JISUANJI SHIJIE [CHINA
COMPUTERWORLD] in Chinese
No 37, 28 Sep 88 p 2

[Article by Chen Jingxing 7115 2417 6821: "An Analysis of Characteristics and Trends in the Current Computer Market"]

[Text] For many unforeseen reasons, during the current wave of restructuring and liberalization, the production and sales of computers have alternately shown both optimistic and pessimistic tendencies. So the questions "What is the state of the current computer market?" and "In which directions is it growing?" have been much in the minds of people. According to the chief economic indicators for 32 key computer enterprises and to "production and marketing deposits" statistical data, the characteristics of the computer market during the first half of this year may be described as follows:

I. Market Demand Has Slowed and Income From Product Sales Is Not Growing Quickly

Income from sales of products from all enterprises was 306 million yuan during the first half of this year, which is a growth of 0.98 percent over the same period last year, i.e., basically stable. Microcomputer manufacturing enterprises (32) produced 12,148 units during the first half of the year, which was 4.89 percent more than the same time last year. Nineteen enterprises showed an increase in income from sales, or 59.4 percent of the statistical base, among which 12 firms had increases of more than 50 percent, or 37.5 percent of the base. Units at Plant No 738, the Yunnan Electronic Equipment Plant, the Shenyang Computer Plant, and the Jiangmen Computer Applications Equipment Plant had even greater growth over the previous year, their income from sales doubling. Thirteen units showed a decrease in income from sales, i.e., 40.6 percent of units, among which five showed decreases in excess of 50 percent, or 15.6 percent of units.

II. Production Exceeded Sales, and Inventories Are Rising

Industrial gross output value reached 559 million yuan for the first half of this year, which was a growth of 34.6 percent over the same period last year, but because the rise in production was even greater, the capacity of the marketplace to absorb that production weakened. With production greater than sales, inventories grew 48.6 percent over that of the same period last year. Aside from stock at the 11 units that are the Huabei Terminal Equipment Plant, the Zhongnan Computer Plant, the Beijing Computer Plant No 3, the Hunan Computer Plant, the Jiangmen Computer Applications Equipment Plant, the Xinan Computer Company, the Tianjin Computer Plant, Plant No 738, the Dalian Radio Plant, the Weifang Computer Company, and the Baoding Radio Laboratory, stock at the other 23 units rose at differing rates. Although stock at some units grew over that of the same period last year, there was a great decline when compared to the end of last year, which was one bright spot, and those stocks are continuing to be moved out. But stock at some units has grown alarmingly and sales have been difficult.

III. Product Competition Has Been Fierce, and the Profits of Production Units Have Begun To "Slide"

As market demand has slowed, many customers are postponing purchases. This has led to fierce competition for product performance and pricing. Product sales prices have declined, there has been another increase in the prices of raw materials, foreign currency rates are rising, and costs are increasing, all of which has forced too much of enterprise reserves into use, and profits have continued to decline. In the first half of the year, surpluses of circulating funds have exceeded norms by 538 million yuan, which is an increase of 9.14 percent over the same period last year; bank loans were 505 million yuan, up 22.45 percent; circulating capital turned

around in 316 days, slower by 24 days; total profit taxes declined 10.16 percent, per capita profit taxes declining by 7.34 percent, and certain enterprises have experienced losses.

Current trends in computer sales are serious. And, from the point of view of production planning, the gross industrial output value for the first half of this year is 45.98 percent of the yearly plan, so that basically the time has half passed and the goals have been completed. As determined by sales of computers throughout a year, trends for the latter half of this year for sales should be better than for the first half. The following trends should be apparent:

A. Sales of Microcomputers With a Better Cost Performance Ratio Will Become Predominant

After several years of experience with dissemination and applications, when buying computer systems, current computer customers no longer do so blindly as in the past, but will "get three bids," both to require a good price to performance ratio, and also to demand preferential conditions. Generally speaking, when there are two of the same machine, one naturally wants the one that has been upgraded, since older products are eventually replaced by newer ones. As for example with the China Computer Technology Service Company, whose model 0520CH computer had total sales of 1,064 total sales during the first half of the year for the BCM-0530 produced by the Beijing Computer Institute was nearly 16 times the amount for the same period last year, and sales of 509 for the Donghai model 0530B during the first half of the year exceeded the supply. The second half of this year saw the introduction of a 386 machine from the Great Wall group, which has already found favor with many customers.

B. There Is a Greater Proportion of Single-Board Computers and of Special-Purpose Computers Compared to Last Year

Because of less necessary funding and fast results, in the current situation of tight money, single-board computers and specialized machines have seen a corresponding increase in market sales. According to statistics from 19 single-board computer manufacturing enterprises, sales during the first part of this year grew 166.6 percent over those of the same period last year. Also, sales this year were greater than production for the period, so inventories dropped significantly, some 53.2 percent less at the end of June than the previous year. Of the more outstanding, total sales during the first half of the year for the WXK-2 controller board made by the Wuhan Computer Plant were 5,250, a growth of 460 percent over the same period last year, and end of June inventories also declined by 26.3 percent. Or take the CTX-Z produced by the Huabei Terminal Equipment Plant; 2,769 were sold during the first half of the year, 16 times the sales [i.e. 1500 percent growth] for the same period last year. End of June inventories greatly declined, which realized 3.9 million yuan in capital potential.

C. Prospects Look Good for Continued Growth in Printer Sales

Printers are not expensive, and aside from the fact that they can be fitted to computers, they can also be used independently, used broadly in office automation, and over the past few years have shown a continued good sales picture. According to partial statistics from some of the manufacturing enterprises, there has been growth of 25.1 percent over the same period last year, and inventories dropped 14.4 percent. As an example, the printer produced by the Weifang Computer Company had sales of 282 units, a rise of 52.4 percent over the same period last year, and end of June warehouse stock declined 43 percent. For the latter half, a printer with an especially good price to performance ratio will become a hot item.

FOREIGN TRADE, INVESTMENT

Country 'Not Likely' To Become Net Oil-Importer in Near Future

40060066a Beijing GUOJI SHANGBAO in Chinese
22 Sep 88 p 1

[Article by correspondent Li Jian 2621 1696: "China's Oil, Natural Gas Controlling Company Established in Beijing; Big Reforms in the Oil Industry Management System; China Not To Become Net Oil-Importer in the Near Future"]

[Text] On the 20th of September the China Oil and Natural Gas Controlling Company held a news conference in Beijing and the manager announced that the China Oil and Natural Gas Controlling Company has been officially established with the approval of the State Council and has begun to operate under a new system.

After the China Oil and Natural Gas Controlling Company was established, the political responsibilities of the original Oil Industry Department were transferred to the Energy Department. The entire scope of the original Oil Industry Department on the Chinese continent (including islands, beach, and between 0 and 5 meters deep into the ocean, including the production and operation management of oil and natural gas), were taken over by the controlling company. The controlling company also took on partial governmental control of the Energy Department and other rights and duties of other government departments. This company is authorized by lawyers and under the direction and policies of the state, it does its own accounting, and is responsible for its own profits and losses. Wang Tao [3769 3447], manager, emphasized that the China Oil and Natural Gas Company is a Chinese company, bringing all of continental China's oil resources under unified management. In planning and pricing it is subject to national controls, which are a bit more strict than for other companies.

The world pays great attention to the development of China's oil. In a news conference, when foreign reporters asked if China is going to become a net oil importer in the near future, Manager Wang Tao said that in the near future it is not likely to become a net oil importer. First, China's gas resources are plentiful. In recent years we organized more than 1000 famous specialists and technicians who used gas resource evaluation technology and methods of the 1980's to do a systematic resource appraisal of the gas contained in the continental shelf, and they estimated China's continental gas resources to be 64.3 billion tons and natural gas resources to be 30 trillion cubic meters. According to the present tendency of oil and natural gas exploitation and development, we can project that in the next three to five years China's oil production will reach a new peak. Secondly, it will rationally resolve China's energy structure. And at the same time it has great potential for organizing the energy structure in a rational way, bringing about effective conservation measures. From these two points, China will not in the near future become a net oil importer.

Speaking of crude oil exporting questions, Wang Tao said: "The primary aspect of China's production of crude oil is for domestic sales. A portion of external sales are made every year to maintain the balance of foreign trade. In 1987 China produced 134.12 millions tons of crude oil, and exported about 27 million tons, which was one-fifth of the total amount. When the world oil price exploded, damaging oil production profits, in order to maintain oil production organization and maintain oil prices at a reasonable level, in these past few years we have reduced our export amount by 4.5 million tons." Wang Tao emphasized that crude oil exporting and selling overseas is still under unified management.

High-Tech Development Zone in Shanghai Seeks Foreign Investment

OW0511143788 Beijing XINHUA in English
1041 GMT 5 Nov 88

[Text] Shanghai, November 5 (XINHUA)—A top general manager in China's biggest industrial city of Shanghai urged foreign investment in a new high-tech development zone in an interview with XINHUA here today.

The infrastructure of the Shanghai Caohejing High-Tech Park, the city's third, was completed Friday, and ready for foreign investment, said Qi Minsheng, the general manager of the park.

The park in the city's silicon valley in the west, is now complete with gas, tap water, telecommunications and other services.

The park, designed for Chinese and overseas investors, covers an area of five square kilometers and has over 50 institutions in computer science, electronics, optical fibres, bio-engineering, space, and telecommunications.

A total of 12 companies, eight of which are foreign, have selected the sites for their plants in the park with an aggregate investment of 55 million U.S. dollars.

The overseas investors include America's 3M Ltd, the Philips, French Liquid Air Corp. [sentence as received]

The city's two other similar zones are in Minhang and Hongqiao. They offer investors tax cuts and other preferential terms to attract foreign investment.

In the Minhang Zone, investors from 10 countries and regions including the United States, Japan, Federal Germany, Hong Kong and Macao have invested in 43 corporations and factories, 24 of which are operating.

Over 70 percent of the zone's 53 hectares of land allotted specifically for foreign investment have been leased.

ECONOMIC ZONES

Hainan Need To Establish New Order in Real Estate Market Stressed

40060097a Shanghai WEN HUI BAO in Chinese
9 Oct 88 p 3

[Article: "Hainan Urgently Needs To Establish New Order in Real Estate Market; at Present, Land Prices Are Soaring; Investors Are Held Back. Those Who Have Money Have No Land; Those Who Have Land Have No Money. This Has Affected Hainan's Investment and Development"]

[Text] On the issue of compensated land-use, the state has extended more preferences to Hainan than any other SEZ. In Hainan, compensated transfer of land-use rights has a maximum term of 70 years; in other SEZs, the maximum term is 50 years. Within the next 10 years, Hainan may keep all the economic benefits it can get out of the land without sharing them with the state; other SEZs must deliver a percentage to the state. By all reason, with this kind of preferential treatment, Hainan should lower its price of land to attract investors and facilitate its development. In reality, however, Hainan's real estate prices are sky-high, and investors have kept away. This has affected Hainan's rate of development.

Since Hainan initially became a province, close to 1,500 companies have come to Hainan to do business or set up factories. Most of these have settled in Haikou City. Up to May of this year, some 556 companies have applied for land-use permits, covering 47,200 mu of land in Haikou. The sudden wave of land-use applications has overwhelmed Haikou's Land Management Department. The land exchange market is poorly managed and is chaotic. Many people want to take advantage of the situation and make a killing in the real estate market, and soaring prices have become the trend.

Each mu of developed land in Haikou costs the Japanese and Hong Kong investors and some wealthy companies from the mainland about 200,000 yuan. Although compared with Singapore, South Korea, and Hong Kong, it is not very expensive, compared with the mainland, the price of land in Hainan is exorbitant. Many mid-sized and small companies basically cannot afford those prices, and many have bailed out because they simply cannot find a place to set up their business.

Some units which own land in Haikou's older urban districts are trying to make some money in the land market too. One unit has around 30 mu of land; its asking price is 1.7 million yuan per mu. In addition, it has asked for a personal, under-the-table cash rebate of 40,000 to 50,000 yuan per mu. A certain storage and shipping unit owns about 12 mu of land and the asking price consists of a multitude of demands. It has asked that the old building be demolished and replaced by a 5,000 square meter dormitory, costing around 2 million yuan; it has asked the investor to give the State Land Bureau a 1.5 million yuan land transfer fee; during the construction period, the investor has to pay a 20,000-yuan per month living allowance for the workers. It has also asked for an additional multiple-use building with a useable area of 5,000 square meters, costing around 4 million yuan, and the investor is expected to rent it back for 90,000 yuan a month. The total cost comes to 8.1 million yuan, around 675,000 yuan per mu.

There is an abnormal phenomenon in Haikou's land-use rights transfer market: "Those who have the money have no land, and those who have the land have no money." Many companies which have brought funds to Hainan cannot find land to buy or cannot afford the price. The Hainan Industrial Company of the Beijing Residential Construction Head Office intended to buy 500 mu of land to build a small prototype subdivision but could not find a piece of land that size. The general manager, Liu Xingyuan [0491 5281 3293], told a Hainan provincial officer, "I can't afford to invest here even if I wanted to." Haikou City has newly designated five or six development zones and has contracted five or six companies, one contractor per zone, to develop them; however, the contractors do not have sufficient funds to finance the project, and they have gone into the primary land exchange market on behalf of the government, ignoring the separation of government and enterprise, and have made a huge profit and received a lot of government favors gratis. This not only violates the land management regulation which prohibits the government from monopolizing the primary market, it also creates unfair competition among the real estate companies. Many companies have the funds but are not willing to invest in Hainan because of the high price of land. They are just waiting and watching.

The Haikou city government has stipulated the following standard land prices: industrial land is priced at 40,000 yuan per mu, residential land at 66,000 yuan per mu, and commercial land at 100,000 yuan per mu. On 2

September, at the press conference for the First Hainan Provincial Party Representative Assembly, Haikou's mayor, Li Jinyun [2621 6855 0061], said that Haikou has recently lowered the price of industrial land by 30 percent, selling it at around 30,000 per mu, and has raised the residential and commercial land slightly, to attract investors. But, at present, the high price of land has disappointed most investors.

Hainan Provincial Party Committee Secretary Xu Shijie [6079 1102 2678] and Governor Liang Xiang [2733 3276] have repeatedly urged the localities to lower the price of land, and have said that some prices may have to be reduced to nothing, to attract investors. But because of the absence of a properly managed land exchange market, and because of the lack of land management rules and regulations, Hainan's land market is chaotic. Many real estate company managers have urged the province to set up a new order of land-use rights exchange market according to international practice and auction off or sell the land-use rights fairly. They have urged the government to implement a comprehensive program in Haikou's development zones and allow several real estate companies to compete for the right to the comprehensive development projects so that investors who have the money can pay a reasonable, relatively low price for the land. They have urged that the Land Management Department rely on rules and regulations to set up and maintain a new order in the land market and limit the price of land and discipline units and individuals who engage in profiteering and speculations. Only in this way will we be able to lower the price of land in Hainan. It has been learned that Hainan's State Land Bureau has drafted, and will soon promulgate, interim rules and regulations pertaining to land management.

LABOR

Study on Low Wage, Aggregate Demand
HK2212010788 Beijing JINGJI YANJIU in Chinese
No 10, 20 Oct 88 pp 16-26

[Article by Cao Erjie 2580 1422 7132 of the China Investment Advisory Corporation: "A Preliminary Study of the Relationship Between the System of Low Wage With Supply Benefits and the Expansion of Aggregate Demand"—written in July 1988]

[Text] In recent years, economic circles have carried out a large-scale study of the problem of investment inflation, but few have associated it with the irrationality in the distribution structure of consumption funds. This has rendered it difficult to explain the phenomena of the following extraordinary contradictions: On the one hand, the low wage system is in vogue and on the other, "over-heated consumption" and inflation of consumption funds appears; on the one hand, a great increase in non-productive construction and on the other, difficult development of the tertiary industry; and on the one hand, the level of salaries and wages and the scale of investments have been strictly controlled and on the

other, difficulties in balancing the budget have appeared continuously. What deep relationship exists between these phenomena and the various drawbacks of the old planning system, and what functions have been played by the old financial distribution system and the distribution method of low wage and the supply system in inflation in both investments and consumption demand, are important problems that need to be studied deeply.

I. Expansion Mechanism of the Low Wage System

In the Sixth 5-Year Plan period, a new special feature was the large proportion of non-productive investments which occupied 42 percent of gross investments, a 100 percent increase over the average level for the years 1952 to 1980. During the same 5-year plan period, of all the newly added capital construction investments, non-productive investments accounted roughly 82 percent. Hence investment inflation in the Sixth 5-Year Plan period was in reality inflation in non-productive investments. It is true that the increase in non-productive investments in the Sixth 5-Year Plan period carried to a large extent, the nature of repaying "old indebtedness". However, if we look more deeply, it may be found that this type of inflation also had a close relationship with the inflation in consumption demand and further on with the irrationality in the distribution system of the consumption fund.

Traditionally, wage as a distribution form has two basic systems: Wage system with consumption in whole and wage system with compensation in part.

In western countries the wage system of compensation in whole is enforced. This includes four basic contents: Material consumption (clothing, food, dwelling, traveling and medical care), spiritual consumption (study, tours, recreation, enjoyment), reserve consumption (insurance, retirement) and social consumption (taxation). In terms of the amount of money, this type of wage has the special feature of being higher than the individual's actual consumption and is thus also called a high wage system. Under the conditions of the high wage system, the yardstick of wages is the social necessary labor needed for production and reproduction by the labor force, that is, the "production and reproduction by the worker himself." Concretely speaking, so far as the worker is concerned, its determination is based on the quality of the actual labor, and supply and demand in the market for the labor force. This type of wage is determined by supply and demand relations of the labor force market and by the limitations of reproduction by the labor force, and is subjected to the spontaneous regulation of the labor force market. Between the workers themselves, only through competition in labor can high income be obtained, and the principle of the survival of the fittest applies. The mechanism of comparing does not exist and comparing itself is of no use.

Our country enforces the wage system of compensation in part. It principally embraces the commercialized outlay of the necessities of life (such as food, articles of daily use, cultural consumption materials and so forth) and non-commercialized outlay (such as housing, medical care, cultural facilities, tourism, studies, and so forth). In the wages, only a part of this outlay is manifested and manifested symbolically. The great portion of it is supplied without compensation in the form of public consumption as if the "enterprise is acting on behalf of society," and is not incorporated into the wages nor available for circulation. As for the other portion of consumption (such as insurance and retirement funds) and social consumption (taxation), they are neither incorporated into wages or in circulation. This kind of wage in reality manifests only a portion of the actual consumption of the staff members and workers. In terms of amount of money it has the obvious special nature of being lower than the actual level of consumption; hence, we call it the low wage system. They present the distribution form of a part in wages and a part in supplies. In this article we call this the low wage system with supply benefits. It comprises of wages of a rigid nature, determined by the state's financial distribution system and subject to limitations by the financial power of the departments and enterprises; it does not come under the regulation of the labor force market and possesses a very strong scrambling mechanism.

Our country has long enforced the low wage system. In the initial period of the establishment of the PRC, this had the purpose of pressing down consumption and increasing accumulation and was meant to suit the low level of production and consumption existing then. However, following the development of the economy and as a result of, in the 20 years since 1958, the freezing of the wage level and the proportion of "bone" and "meat" in urban construction being imbalanced meaning it difficult to make large changes in the wage level, the various sides concerned could only first improve treatment through bettering housing benefits; the distribution pattern of a system of low wages but with housing supply was formed. In recent years, following reform of the economic structure, increases were made in wages and bonuses and this stimulated the expansion of the consumption fund. It forced the state to adopt restrictive measures, of controlling the wage fund to a certain degree and imposing bonus tax. Consequently, enterprise units and the administrative departments concerned had to greatly indulge in providing housing benefits and group welfare facilities, employing "flexible welfare" to contest "stiff wages." As a result, they turned the current distribution form into one of "low wage plus various kinds of supply systems, semi-supply systems and supply systems in disguise. By so doing, in the per capita consumption of the residents, the portion of the supply system has become larger and larger while the monetary portion of the wages has increased little.

Under the cover of low wages, the expansion mechanism of the supply system has been strengthened, and the regulatory role of wages over the consumption fund has been reduced.

For the sake of analyzing the actual consumption level of urban residents under the low wage system in our country, we may make a comparison based on the "statistical yearbooks of China" between the years 1957 and 1955 of the urban residents' average monetary consumption level calculated on the year's prices and changes in the consumption structure. The per capita consumption level calculated in monetary wages rose from 222 yuan in 1957 to 732 yuan in 1985, an increase of 230 percent; but the ratio occupied by commercialized

outlay for consumer goods of a low flexible nature in income (such as food, clothing, articles of daily use, and cultural goods) rose from 85.9 percent to 92.2 percent; whereas the ratio occupied by non-commercialized outlay such as housing expenses, water and power charges, school fees, transport fees, and cultural and recreational expenses dropped from 14.1 percent to 7.8 percent and even in the case of the two types of expenses, medical fees and fuel charges which more clearly denoted the nature of the supply system, the ratio dropped by over 50 percent (see table 1 below). The changes in the consumption structure computed on the basis of monetary wages as reflected by these statistical figures were more or less deformed. they were contrary to the basic knowledge in economic theories and to the actual changes in the consumption structure of the residents.

Table 1. Composition of the Increase in Yearly Average Individual Consumption of Urban Residents in the "sixth 5-year plan" period

Item	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Year									
1957	222.00	190.68	129.72	26.64	16.92		1.32	4.08	8.64
1964	220.68	188.40	130.68	24.24	13.20	2.40	2.52	4.08	9.36
1981	456.84	420.36	258.84	67.56	43.68	25.92	4.32	2.76	3.88
1982	471.00	432.12	276.24	67.68	43.44	21.72	4.20	2.88	8.76
1983	505.92	464.04	299.52	73.56	45.72	20.76	4.92	3.12	8.76
1984	559.44	514.32	324.24	86.88	50.64	24.60	5.88	3.36	9.21
1985	732.24	675.48	390.36	112.32	81.48	54.84	6.96	5.52	10.08
1985/1964	331.0%	358.5%	298.7%	463.4%	617.3%	228.5%	276.2%	135.3%	107.7%
1985/ 1957 %	329.8%	354.2%	300.9%	421.6%	805.7%		506.8%	135.3%	116.7%
1975 equal base 100		85.9	58.4	12.0	7.6		0.6	1.8	3.9
1985 equal base 100		92.2	53.3	15.3	11.1	7.5	1.0	0.8	1.4

Item	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)
Year								
1957	31.32	5.16	3.24	1.44	2.88		5.28	2.4
1964	32.28	5.76	3.84	2.76	3.48		3.84	1.56
1981	36.48	6.36	4.44	2.64	2.76	6.12	0.48	2.88
1982	38.88	7.08	5.04	2.76	2.76	6.60	0.60	2.40
1983	41.88	7.68	5.76	3.24	2.40	6.96	0.60	2.28
1984	45.12	7.80	6.24	4.44	2.52	7.56	0.72	2.16
1985	56.76	7.92	7.56	6.96	4.08	8.40	0.84	2.64
1985/ 1964	175.8%	137.5%	196.9%	252.2%	117.2%	240.63%		169.2
1985/ 1957	181.2%	153.5%	233.3%	483.3%	147.7%	175.00%		110.0%
1975 equal base 100	14.1	2.3	1.5	0.6	1.3	2.4		1.1
1985 equal base 100	7.8	1.1	1.0	1.0	0.6		1.3	0.4

Notations: (1) Total Outlay for Living Expenses; (2) Total Outlay for Commodity Consumption; (3) Food; (4) Clothing; (5) Articles of Daily Use; (6) Cultural and Recreational Articles; (7) Books, Newspapers, Magazines; (8) Medicines & Medical Expenses; (9) Fuels; (10) Total Outlay for Non-Commodity Consumption; (11) House Rent; (12) Water & Electric Charges; (13) School & Learning Fees; (14) Child Care Outlay; (15) Transport Expenses; (16) Telegraph and Postal Charges; (17) Cultural and Recreational Expenses.

Notes: Source: computed according to sample survey materials, Statistical Yearbook of China, 1986; Relationship of the various absolute figures shown in table:

(1) equal (2) plus (10); (2) includes items (3) to (9); and (10) includes items (11) to (17).

What was the cause of the appearance of such strange and deformed changes? A further analysis will reveal that in the statistical figures for the residents' consumption in monetary terms in the recent period, the contents of at least three large categories of actual consumption were not included therein. Take 1985 for example: In this year the gross volume of the salaries and wages of the staff members and workers in cities and towns was 138.3 billion yuan and the gross volume of monetary income including various kinds of income from subsidies was 175.885 billion yuan. The gross volume of various kinds of non-wage actual consumption not included in this figure was 158.639 billion yuan (see Table 2 below).

Thus, regarding the consumption fund and actual consumption demand in 1985 we can obtain a new concept: So far as the urban residents are concerned, in 1985 the gross volume of salaries and wages was 138.3 billion yuan and the gross volume of monetary income including various kinds of income was 175.885 billion yuan. This portion is what we ordinarily call consumption fund. Adding the gross volume of non-monetary consumption of 132.379 billion yuan, ¹ the actual consumption demand backed by the ability to pay amounted to 308.264 billion yuan.

This shows that after 1985, the consumption demand of urban residents including monetary distribution, subsidies, and distribution in kind, exceeded 300 billion yuan, whereas the gross volume of salaries and wages plus other monetary income, that is, the usually so-called "consumption fund" was between 150 to 180 billion yuan, being only 50 to 60 percent of the consumption demand.

This analysis concretely demonstrates that the low-wage and supply system possesses a special expansion mechanism. It stimulates an increase in the consumption fund such as salaries, wages and bonuses, an increase in consumption demand and also stimulates the expansion in non-productive investments. It takes large amounts of investment to seek the increase in various kinds of supply benefits to be converted into consumption. There is a saying in society: When a new plant head takes office he has two rigid targets: That the bonuses are not less than those granted by his predecessor and the area of housing construction not smaller. This indeed is a true picture of the low-wage supply system stimulating on the one hand, the inflation of the consumption fund, and stimulating the inflation of investment on the other, playing the role of a double expansionist mechanism.

Table 2. Estimates of Various kinds of Consumption Not Computed Into the Wage Income of Urban Residents in 1985

Category	Content	unit: hundred million yuan	
		Amount	Notes
Actual income not computed into wages	Staff welfare portion undersystem of ownership by the people	266.80	Taken from statistical yearbook
	of which:		
	1. Retirement and separation funds	112.40	
	2. Burial compensation funds	05.30	
	3. Medical, public health funds	64.70	
	4. Subsidies for hardship in living	06.60	
	5. Subsidies for agricultural sideline production	1.00	
	6. Documentary propaganda funds	4.90	
	7. Subsidies for collective welfare & facilities	32.80	
	8. Others	39.10	
2. Actual consumption computed into ordinary financial expenditure	Estimate of staff welfare portion under system of collective ownership	65.50	Weighted computation at 70 percent of welfare level under system of ownership by the whole people
	Sub-total	332.30	
	Price subsidies	370.00	1984 figures
	Rent subsidies	94.22	Estimated according to cost depreciation
	Estimate of portion of expenses of cultural, educational, public health, and scientific enterprises spent on residents' consumption	63.92	Estimated at 40 percent of balance of expenses of these three categories of enterprises after deducting salaries and wages
	Social welfare relief funds	31.15	

	Estimate of portion of industrial, communications, and commercial enterprise expenses and administrative expenses spent on residents' consumption	61.82	Computed at 60 percent of balance of expenses of administrative enterprises after deducting salaries and wages
	Sub-total	621.11	
3. Actual consumption computed into capital construction investment	Investment in residences construction	215.18	
	Investment in real estate, public facilities and services	117.92	
	Investment in public health, sports, and social welfare	23.10	
	Investment in culture and education	78.12	
	Estimate of non-productive investments in productive departments*	60.36	
	Sub-total	494.68	
4. Monetary income aside from wages	Various kinds of bonuses, subsidies, and allowances aside from wages and not computed in the social welfare fund	138.30	According to a ten percent estimate of a total wage of 138.3 billion yuan, a relatively conservative figure
Grand total	urban residents' actual consumption not computed into wages	1586.39	

*#Computation formula:

The dividend resulting from investment in industrial non-residential type, non-productive construction divided by investment in industrial non-productive infrastructure, multiplied by investment in production industry non-productive infrastructure

All the figures quoted from the statistical yearbooks. Original figures in table quoted from the "Statistical Yearbook of China, 1986."

II. Low Wage Supply System and the Expansion of Non-Productive Investments

The increase in non-productive investments is the product of the expansion mechanism of the low wage supply system. The supply system here carries a special meaning. It is not merely supply of the usual daily means of subsistence but is a kind of supply which first of all involves large investments on building various kinds of welfare structures and facilities followed by regular employment and maintenance by specially organized organs, and specialized personnel to realize a kind of consumption content. The original meaning of this type of supply system and its investments is to supplement low wages but the result of its development is that it exceeds its functions and occupies the principal place in distribution. The distribution form of this supply system has grown into a special mechanism which has the functions of expanding investments and following up with converting investments into consumption.

Most clearly the housing supply system expands investments. The real estate business in our country is not developed. Staff members and workers, though possessing money, cannot afford to rent houses. Under the housing supply system, it is not that the state and enterprise units spend money to rent houses for employees but that large investments are made first on housing construction for distribution to the employees followed by spending large in maintenance funds to provide them

with rent subsidies. This sort of supply system itself makes the low wage system go to its own opposite side, because in the low wages under a strictly controlled wage fund, even rent has to be subsidized by the state and basically speaking, employees relying on salaries and wages alone cannot afford to buy houses. When readjusting wages, people's attention is concentrated on increasing the wage of a certain rank but such an increase will not exceed 100 yuan a year. On the other hand, distribution of a set of living quarters, say, of some 50 square meters, costs about 50,000 yuan according to Beijing's unified construction prices. In western countries an employee's housing outlay usually occupies 25 to 30 percent of the consumption outlay. In our country low wage and low house rent are in vogue and outlay of rent occupies only about 1 percent of the consumption outlay in monetary terms. This is not sufficient to meet the maintenance charges, not to mention the depreciation charges. Furthermore, the problem lies in that housing distribution has been separated from the principle of distribution according to work. In reality, it is according to a variety of complex factors such as needs (population), qualifications (length of service), jobs and posts (holding large or small power), and a portion even according to family relations (parents' post, power, and station in life). This distribution form of the supply system not only brings about unevenness in fortunes and misfortunes and helps the spread of irregular practices but also causes waste in housing consumption. In recent

years, following the rapid growth of investments in housing, the housing shortage has been eased somewhat but the phenomena of empty houses and several tenants in the same household have frequently been seen. In some cases cadres' children and grandchildren not yet of age have already been distributed with residences. Phenomena of this kind are the special product of the housing supply system.

Following the daily rise in people's demand for housing, the per capita dwelling area has been raised from the 4.5 square meters in the early period of the establishment of the republic to 5.27 square meters in 1981 and to 6.66 square meters in 1985. There is now talk of a fairly well-to-do level of some 8 square meters. The capital construction investments in residences were 11.119 billion yuan in 1981, 13.45 billion yuan in 1984 and 21.518 billion yuan in 1985. In the "sixth 5-year plan" period, investments in residence building occupied 21.3 percent of the gross volume of capital construction investments. In 1985, of the outlay for enterprise welfare funds and administrative enterprise expenses, the cities and towns spent 11.33 billion yuan of self-raised funds on residence construction. Use of the state's limited financial resources to support the daily growing ranks of staff members and workers, the unlimited demands for increasing the per capita dwelling area as well as to bear the burden of the enormous waste arising from the irrational distribution, is beyond the power of any of the wealthy countries in the world. How can it be condoned in China which is a developing country with a huge population and a poor foundation?

"Transportation" in the supply system not only provides the staff members and workers with transport subsidies but also stimulates the enterprise units in investing in vehicle purchases to form "regular bus services" for their staff members and workers. Simultaneously, expenditure on small motor vehicles have been expanding. Economic management in the traditional economic pattern stresses principally direct control, leading to the growth of the administrative structure and business vehicles for leadership cadres have evolved into symbols of power and special treatment. According to available statistics, at present there are 220,000 administrative units in government organs qualified to have vehicles assigned to them. In addition there are some 400,000 industrial enterprises, 190,000 medical and public health units and 130,000 cultural, educational and scientific research units all of which added together form an enormously large group of consumption units. At present there are nearly 500,000 sedans, basically owned by organizations above the county level and by enterprises. In the development of modern living, despite the demand from individuals using cars increasing daily, under the condition of low wages, purchasing of cars for business use can only depend on one's promotion in rank and on social groups. Under such conditions, any supposition on measures to relax the restrictions of the collectives' purchasing power and liberalizing the privileges in the ranks of car-using will not only face the requirement of adding

several hundred thousand sedans and the spending of hundred of millions of yuan on buying cars, but also will make it necessary to employ several hundred thousand more drivers, a several hundred million yuan increase in salaries for them, as well as several million square meters of residences and several billion yuan of investments in residences.

The "Bath House" and "Cultural Recreation" supply system refers to enterprise units and administrative offices seeking to build large auditoriums, club houses and bath houses, thus spending large investments and incurring large amounts of regular expenses to provide the staff members and workers with free cinema shows and bath-house and barbershop facilities.

In the supply system, providing education to the staff members and workers and their children not only calls for the enterprise units and organizations to pay school fees but also involves, first, making investments in building school houses and spending funds outside of the usual business or office expenses to run the schools. At the same time, on account of limited educational expense and the restrictions in the scale of educational institutions (especially colleges and specialized high schools), many high school graduates cannot obtain advanced learning directly but have to obtain employment first, and then on the strength of the financial power of the units employing them enroll in the professional schools, television schools, part-time schools, correspondence schools, and schools for advanced studies, thus literally being paid for going to school. This method of jobs first and schooling afterwards lowers not only the quality of the staff members and workers in employment but also the efficiency of the educational institutions. This is an important cause of many enterprise and business units and administrative organs having more employees than needed and the vast amount of non-productive outlay.

Taking tours at public expenses is clearly prohibited by the state. Nevertheless, government organs, departments and enterprises have disregarded the state's ban and employed various pretexts to call meetings at scenic spots or built sanatoriums in scenic places for tourism. In recent years, the practice of building sanatoriums has been growing daily. In Xingcheng county of Liaoning Province alone, up to the end of 1986, the various investments of over 300 million yuan.

The latest development of the supply system is that various organizations, business units and enterprises, using various pretexts and at the expense of subsidies from the state, sell at cheap or symbolic prices, fowl, meat, fishery products, fruits, and other consumer goods to staff members and cadres. Following the sale, large amounts of investment and expenditure in subsidies are frequently made in the producing areas of these commodities. At the same time, the financial pattern of the ownership system of the departments limits the use of the funds owned by the departments to subsidies to the

staff members and workers of the department concerned and forbids the use of the funds on developing tertiary industry. This in itself is the distribution mechanism in which, under the condition of low wages, consumption is in general overlooked while the organizations and enterprises cannot but look at consumption importantly. It forces us, in the form of "enterprises running society," to pay ten or even one hundred times the price for limited consumption by private individuals.

III. Low Wage Supply System and Expansion of Consumption Demand

Another side of the expansion mechanism of the low wage supply system is its expansion of the consumption demand, which helps the "over-heating of consumption." This looks like a contradiction but is natural. The system departs from the principle of "compensation according to work," and embodies many distribution factors such as according to need, length of service, duties and functions, and administrative grades. Under such conditions, there is no unified yardstick on to what extent the low level should be, the size of the scope of supply and to what extent or degree. Thus, taking low wage as the reason, a special expansion mechanism is formed which seen from all sides seems to be reasonably stimulating consumption demand and increasing the consumption fund.

1. Low wage stimulates demand for wage increases on the part of the enterprise and the staff members and workers, resulting in an increase in subsidies, bonuses, or in the issuance of goods in kind; it thus stimulates the increase in monetary income.

2. Bound by its limited financial resources, the state, taking into consideration the situation as a whole, naturally endeavors to limit the increase in wages and in monetary income. However, it cannot but provide an opening to permit the enterprises, according to their own financial power, to increase certain collective welfare benefits, that is, to permit them to increase certain consumption supply. The result is stimulating the enterprises to scramble for the utmost profit retention and also the scramble between the enterprise and its staff members and workers for supply.

3. Due to the non-development of tertiary industry, the enterprises, though possessing the financial power, are unable to make any "supply," and cannot but turn to investing in non-productive construction, thus "investing" first and "supplying" afterward. As a result, they turn to scrambling with each other for investing.

4. The state needs to use the price lever to stimulate production through raising the prices of certain industrial and agricultural products but because of restricting the increase in the wage fund, it cannot increase the

people's burden and thus cannot but proceed with enforcing price subsidies on certain consumer goods. These kinds of subsidies have now increased to over 30 billion yuan a year.

Wage increase, supply increase, subsidy increase and investment increase—these constitute the "quartet" of the special expansion mechanism found in the distribution pattern of the low wage supply system, resulting expansion of the consumption fund and expansion of investments.

Another cause for the expansion mechanism in the distribution pattern of the low wage supply system is that under the conditions of the public ownership system the state lacks the necessary restriction on the expenses of the enterprises on common consumption as well as the scramble among enterprises for utmost profit retention, supply, welfare benefits, and investment.

In recent years, the expansion mechanism of the low wage supply system has been especially active. With the development of the productive forces, the per capita national income has increased rapidly. This in itself demands corresponding increases in the individual's income and consumption levels. Hence in recent years there have been rather sizable increases in monetary income such as wages and bonuses. Nevertheless, on account of the restrictions of the low wages, the monetary income of the staff members and workers is still insufficient for the purchase of residences, or of motor vehicles, and still cannot bear the burden of the consumption outlay of income of a highly flexible character such as tourism, studies, and so forth. Consumption on this side still depends on public consumption and subjectively the residents' actual consumption, that is, consumption demand, has been raised higher and higher.

The increase in actual consumption provided by the supply system produces two important effects: First, the outlay for residence, communications, cultural and spiritual consumption which occupies 30 to 40 percent of the residents' actual consumption is divorced from the control of the distribution in money of wages and consumption fund and is supported by the supply system, and this takes the place of the content of the monetary consumption of the staff members and workers. Second, the actual consumption in the form of residence and so forth correspondingly increases the demand for durable consumer goods and other commodities. Now with the increase in the gross volume of wages and the small increase in the outlay for food, a sizable portion of the savings or balances from monetary income are shifted to the demand for consumer goods of a high-grade and forms on overly prosperous demand for durable consumer goods, that is, "over-heated consumption." In reality, this, due to the role played by the above-mentioned two effects and the continuation and augmenting of the distribution pattern of the supply system, brings

about an increase in actual consumption thereby speeding up inflation of the demand for consumption backed by the ability to pay, increasing the pressure on the market, and sharpening the contradiction between market demand and supply.

In the distribution pattern of the low wage supply system, reliance on group consumption covers up the residents' real consumption level, and at the same time causes the false phenomena of high accumulation and low consumption. Under these effects, the current inflation in consumption demand is first manifested in the sharp increase in demand backed by actual purchasing power, whereas there is an extreme shortage in commodities, particularly durable consumer goods available for supply. This brings about a sharp increase in the residents' savings and the gross volume of money held in their hands. This increases the pressure force of holding money to await purchasing and the rise in commodity prices follows. Here, the direct cause is not paying out too much in wages or too big a volume of money in circulation. Rather, it is because the large portion of the "dwelling" and "transportation" consumption outlay of the staff members and workers is borne by the state, collective consumption is actually practised and becomes an outlay of a non-commodity nature, and there is no way to absorb the monetary income of the staff members and workers. By so doing a slice of the largest consumption market is converted into a heavy burden on national finance and of the enterprise and business units. Besides, it causes the people's consumption to shrink and wither and when the contents of certain supply items cannot be made available because of the limitations of the financial strength of the departments and/or enterprise units, even though demand has come forth from certain people, it can only be allowed to wither. Speaking in this context, inflation of consumption funds is a special effect of inflation in consumption demand under the distribution pattern of the low wage supply system which is found in our country, and is the serious consequence of a portion of the consumption contents of income of a highly flexible nature being unable, because of the existence of the supply system, to readjust the actual consumption structure of the residents.

IV. The Low Wage Supply System Hinders the Development of the Socialist Commodity Economy

Some people say that non-productive investment is the substitute for tertiary industry. This is not correct. Under the distribution pattern of the low wage supply system, the supply system formed by the non-productive investments forms in the various enterprise units and administrative organs a self-supply consumption network of its own structure. It does substitute for tertiary industry and actually restricts the formation of a pattern of division of work in socialized large-scale production and specialization. Fundamentally speaking, it has its

source in the form of a product economy, possesses the thick coloring of a natural economy and is highly inconsistent with a socialist commodity economy.

First, the low wage supply system employing the form of "enterprises running society," expands consumption demand and demand for investments of a non-productive nature; furthermore, it hinders the development of tertiary industry and weakens the commodity economy.

Non-productive facilities, investments of a non-productive nature and business outlay of a non-productive character form a heavy burden for the enterprises. The theme of "enterprises running society" furthermore refutes the commercialization and commercialized operations in residences, communications, cultural recreation and tourism. It makes tertiary industry lose its market and lose the price level it should have. At the same time, the existing system of planned distribution of investments only follows the channels of the production departments, localities and enterprises to give and distribute to, in a random manner, investment projects of a non-productive nature such as residences, guest house, auditoriums, and so forth. This causes a serious demarcation by departments of these public consumption facilities. It does not take tertiary industry as an industrial department and give it investments. As a result, the expansion and development of tertiary industry loses its necessary source of funds.

The production form itself of "enterprises running society" negates the economic character of the structure and organization of tertiary industry. It adopts the pattern of self-provision and self-sufficiency of petty producers, employs the production style of "each household sweeping off the snow at its front doors" and of the "sparrow, though small, possessing all the vital organs," and negates the special economic features, organic economic liaisons, dimensional effects and commercial standard which tertiary industry should have. Due to the limitations on the salaries and wages of its staff members and workers, quite a number of trades have been unable for a long time to collect fees according to the rational cost of production and profits, compelled to rely on "blood transfusions" from various kinds of subsidies and gradually downgraded to become a part of the supply system. Thus, tertiary industry's development has been checked and unable to develop at the same time as the primary and secondary industries and on a reasonably proportionate scale. This lowers the structural benefits of the macroeconomy.

Second, construction of a non-productive nature under the distribution form of the low wage supply system always suffers from the restrictions of the pattern of the ownership system of the departments and units. This affects socialization in the consumption services of these facilities, causes shortage and surplus to coexist and turns around to aggravate the hunger and thirst for consumption and for investment, also damaging the investment benefits of the state's limited financial

power. On the one hand, the various enterprises and administrative units have a rather large surplus of non-productive facilities, causing direct waste. For example, compared with regular cinema theaters, a plant's subordinate cinema club opens its doors five days less a week; cadres' rest houses and sanatoriums offer their services eight months less a year, when compared to hotels for tourists; and a plant's private bus runs 10 hours less a day compared to public buses. The low efficiency rate produced by these facilities and equipment, by various other kinds of expenditure, causes an enormous waste of the limited financial power and material resources, and, on aggregate, the low level of the macroeconomic benefits is sadly manifested. On the other hand, the non-development of tertiary industry in society further aggravates the hunger and thirst demand in some cases, capital construction facilities, equipment and expenditure originally to serve society as a whole are incorporated by different departments, organizations and enterprises into their own self-supporting facilities for private use. This causes a large slice of consumption demand in society which is un-protected by the supply system to become inflated. Under the mechanism of competitive scrambling, brisk demand appears but supply lacks support. In current society the various kinds of difficulties encountered in transportation, finding a place in a bath-house, a barber shop, a child-care center, a restaurant, a hotel, or in school, and so forth fully reflect this type of hunger and thirst demand for which, in turn, stimulates investment demand.

The damage done by the distribution form of the low wage supply system on the macroeconomic effects of the national economy are also manifested in the violation of the socialist principle of distribution according to work and seriously affect the production enthusiasm of the staff members and workers. Justice is violated and efficiency is damaged. Under the distribution form of the low wage supply system, whether one is an industrial worker or a staff member or worker in an administrative or business unit, his actual income and consumption level are in reality dislocated from his outlay of labor and services to society and the disparity in the actual consumption level is great. For example, the annual salary of a cadre of a departmental grade and that of a cadre in a bureau are about 1,500 yuan and 1,800 yuan respectively. But due to the different treatment accorded them, their actual consumption level given by the supply system differs greatly. Disregarding the disparities in the actual consumption level in respect of residences, holidays and leave, separation and retirement, and so forth, let us take the outlay for the provision of a motor sedan for special use. Its direct expenses every year will be from 20,000 to 30,000 yuan. As for the outlay in the form of salary, selfare benefits and housing provision for the employment of a special driver, the yearly amount will be over 30,000 yuan, which is equivalent to more than 10 to 15 times the cadres' salaries. The low-wage supply system hides the essence of its existing distribution form which violates the principle of distribution according to work. This makes the distribution system unsuited to the

development of the commodity economy and further keeps hidden the low efficiency rate and waste in economic life it causes. In turn, it aggravates the causes leading to the various contradictions in economic life.

The low wage supply system further hinders the growth of consumption credit and merging of funds of a consumption nature and heightens the contradiction between consumption demand and the production structure. Seen from either the angle of society's different classes of people or from the angle of the different periods in man's life, between actual consumption demand and income available for disposal there exists an absolute disparity and hence contradictions naturally exist between demand backed by the ability to pay and production of consumer goods. This is to say, in the residents' actual consumption, balance in money and surplus in consumer goods coexist. This is one of the natural enemies of the market economy. After World War II, western countries devoted whole-hearted efforts to developing consumption credit to ensure the stability of market demand. However, the low wage supply system actually negates consumption of a fund-merging character. Due to the inflation of consumption demand leading to inflation of the consumption fund and the big portion of consumption being ensured by the supply system, a large volume of purchasing power is directed at durable consumer goods. This causes a general shortage in these goods, and there is no way to develop consumption credit. Thus, the residents' balances in money cannot be used on investments and merging of funds of a consumption nature and no enterprise is able to develop sales business on credit (in fact there are no commodities available for sales on credit). This makes it difficult for the residents' marginal demand and the enterprises' marginal income to be realized, leads to aggravation of the contradiction in market supply and demand, increases the enterprises' investment risks and the fall in macroeconomic effects follows in its wake.

V. Low Wage Supply System Is One of the Causes Leading to Sustained Deficits in National Finance

The serious character of the consequences of the effects of the low wage supply system on the national financial burden is even more outstanding. According to statistics, gross financial expenditures in the Sixth 5-Year Plan period were 77.37 percent higher than those of the Fourth 5-Year Plan period, and, compared with the Fifth 5-Year Plan period were higher by 32.49 percent. But in the Sixth 5-Year Plan period, the appropriations for capital construction investments on expanded reproduction were higher than the two other periods by 33 percent and 4.86 percent, but the total of the three categories of expenditures of the enterprises of the cultural, scientific and public health departments, enterprises of the industrial, communications and commercial departments, and enterprises in administrative management was higher by 238 percent and 100.26 percent. Comparing the two, it is found that in the financial gross outlay the proportion occupied by the three categories of enterprise

expenses was nearly doubled while the proportion of the financial expenditures on appropriations for capital construction dropped by 30 percent. The increased portion of the financial revenues in the Sixth 5-Year Plan period was mainly consumed by financial expenditure of an ordinary nature, particularly expenditure of various administrative establishments. This type of composition of the financial expenditures reflects another aspect of the consequences of the distribution form of the low wage supply system. It not only increases the burden of central finance but also damages the stamina of economic growth.

Changes in the composition of the capital construction investments reflect more or less the same problem. Computations made according to figures found in the "statistical yearbook of China, 1986" show that in the Sixth 5-Year Plan period the gross volume of capital construction investments increased by 45.6 percent and 93.32 percent over the Fifth 5-Year Plan and Fourth 5-Year Plan periods. In the same period, the proportion occupied by capital construction investments of a non-productive nature in capital construction investments rose by nearly 100 percent. In the production departments, capital construction investments of a non-productive nature increased by 171.22 percent and 276.65 percent and the proportion in capital construction investments was also doubled.

These statistics illustrate that the low wage system not only failed to bring to national finance the advantages of broadening the sources of income and reducing expenditures, but on the contrary used the form of the supply system to convert large amounts of investment into consumption. This increase in consumption in the supply system will inevitably become a heavy burden on national finance.

From the standpoint of the theory on administering finance, the form of distribution of low wage supply system is also a poor policy. Finance is built on the foundation of taxation and is a functional department of the state protecting public consumption. One of the historical superiorities socialist finance commands over capitalist finance is that its public ownership system inevitably endows it with the functions of making accumulations and developing the productive forces. However, due to the restrictions of the low wage, it cannot but give up a portion of the taxes and allow profit retention by the enterprises and business units to enable them to meet the daily growing expenses on their welfare facilities and at the same time it must bear the expenditures on individual consumption distributed by the supply system and on investments of a non-productive nature. Moreover, because this supply system lacks a rigid scope and limit and gives the enterprises a rather large degree of flexibility in their expenses on providing supplies, a large loophole is retained in the efforts of finance to cut down expenditures. In the open, it appears that the financial department exerts a very rigid control over the increase in wages but on the dark side, providing a

residence for a worker is tantamount to increasing his wages by one hundred times. In economic reform, people are skeptical about price reform. In reality, the rigid nature of wages is the source of the rigidity in prices; the rigid nature of wages is the special feature of the low wage system. If the distribution form of the low wage supply system is not changed, then with the rise in the production level and in the consumption level, abnormalities in the price system will become increasingly difficult to rectify and the individual's actual consumption will increasingly depart from market movements and have to depend on distribution from finance. The burden of the various kinds of financial ordinary expenditure and price subsidies will make central finance and local finance fall into a state of growing difficulty.

Viewed from the long run, reducing progressively increasing expenditure is the principal road to improving financial receipts and expenditure. The existing distribution form of the low wage supply system binds national finance and local finance with the daily increasing consumption demand of the people. This will mean the prospect of daily increasing difficulties in balancing finance. It may be said that the distribution form of the low wage supply system is one of the innate causes of inflation in gross demand and of the manifested state of sustained deficits in finance. If the distribution form of the low wage supply system is not changed, the burden of expenditure of a consumption nature borne by finance will grow increasingly.

VI. Socialist Spiritual Construction Moth-Eaten by Debt-Repayment Mechanism of Low Wage Supply System

The distribution form of low wage supply system has another drawback; in its distribution relations a sort of mechanism of repaying an indebtedness is formed, promoting the growth of laziness. Originally, under the conditions of wage representing full compensation (here we shall not talk about the social factors of the ownership system), in enforcement of the principle of pay according to work, if a staff member or worker cannot afford to have a residence or to buy a motor car, he will work hard to increase his income or resort to the use of consumption credit, that is, use of payment by installment plan to actuate the necessary consumption. But the low wage supply system reverses the state of indebtedness. If a staff member or worker cannot get an increase in wage, cannot afford to have a residence, or to own a motor car, or to buy high-grade consumer goods, he does not acknowledge that this has anything to do with his work or services, but naturally feels that the state owes him a debt. If such large consumption items as housing and motor vehicles are taken up or provided by the state, the staff member or worker, lacking the means to buy, need not. Hence, it does not matter whether he works hard or not. This is disadvantageous to stimulating the staff member's or worker's enthusiasm for work or bringing up the good habits of thrift and diligence. However, if the state and enterprises, because of the limited financial

resources cannot build many houses or buy many motor vehicles and, added to this, since the units are different in financial strength and there are differences in their supply level, leaders of enterprise and business units confronted by the universal low wage system are liable to believe that the state and the enterprise owe the staff members and workers a debt, they will always look for an opportunity to repay the debt for the state. On the part of the staff members and workers, when they receive certain compensation not in accord with their own work or services, they will always take it as repayment of a historical debt by the state. This forms between the individual staff member and worker and the enterprise unit and state, spiritually a sort of special "creditor and debtor" relationship. Hence, a sort of debt repayment mechanism is formed and the state is forever in a state of "debt repaying," bearing the heavy burden of financial subsidies and construction of a non-productive nature.

It should be admitted that indebtedness does exist. This is principally the result of the historical "leftist" ideologies, stressing accumulation and looking lightly at consumption and is also the result of the low wage supply system hindering the development of tertiary industry and causing varying degrees of extravagance in the departments and enterprises, making investments of a non-productive nature and undertaking the irrational distribution of welfare facilities. If the low wage supply system remains unchanged, there will be no way to change the situation of the individual being in a creditor position vis-a-vis the state.

We should not underestimate the passive influences on the building of socialist spiritual civilization from this debt-repaying mechanism formed by the distribution form of the low wage supply system. It encourages laziness on the part of the workers, downgrades their spirit of being masters of the house and helps the spread of bureaucratism and an improper atmosphere.

Under the ownership conditions of the departments, the supply system forms a sharp disparity between the actual income and the consumption level of the staff members and workers. It stimulates the mechanism of scrambling with others in the traditional planned economy pattern. Under the form of a part of consumption distribution being of a non-compensatory character, people's hunger and thirst in their consumption demand are converted into violent competition and a sense of possessiveness in regard to housing distribution, welfare benefits and increases in wage. People no longer follow objective standards in comparing work and contributions. Rather, they compete with each other in conditions, length of service and ranks in officialdom. This leads to staff members and workers talking about each other and attacking each other. Hence it is also a passive factor seriously affecting stability and unity. The universal appearance in society of problems of housing distribution, increase of wages and so forth is forever an immense challenge to the stability in production and orderlines in work in certain concrete units.

VII. Theoretical Suppositions on Reform of the Distribution Structure

The low wage supply system is not a distribution form which originally existed in socialism.

Enforcement of the low wage supply form has its derivation from Stalin's theories of repressing people's consumption to give priority to developing heavy industry and capital accumulation and from the communist distribution form in military matters in the early stage of the Soviet Union. Stalin said: "Transformation of industry implies shifting capital funds from production of means of consumption to production of means of production. Without doing so we will not, and cannot achieve any important and great transformation in industry, particularly under our Soviet conditions." ² The actual practice of Stalin's theory of giving priority to developing heavy industry caused the withering of production of the means of consumption and a state of all-round shortage of consumer goods. Under the guidance of this theory, in order to realize industrialization, it is necessary to enforce low wages to curtail the rise in the people's consumption level and the increase in the right of consumption. But Stalin did not understand the cause and effect relationship between his priority on developing heavy industry and the shortage in means of consumption. Rather, it led to another erroneous conclusion, that is, the belief that the growth in production being behind the growth in consumption is a strong point of socialism.

Depending on edging aside consumption to accumulate investments on heavy industry and giving priority to developing heavy industry in themselves run against Marx' doctrine on reproduction and also against the theory of reciprocal relations between the first categories and the second categories. In actual practice they naturally fall into difficulties.

The low wage supply system offers a distribution form suited to the strategies of giving priority to developing heavy industry and restricting the development of production of means of consumption. But it cannot overcome the various evils and drawbacks brought along by the strategy of giving priority to developing heavy industry. Rather, it deepens the various contradictions in economic life. The first manifestation is that this type of distribution forms an expansion mechanism for shortage in social production. In reality it expands consumption demand and enlarges the contradiction in the form of shortage of means of consumption caused by the priority development of heavy industry. In the course of distribution it creates the situation of the co-existence of shortage and surplus. It lowers the use value of the limited means of consumption, augments the hunger and thirst for consumption and forms a special expansion mechanism to increase consumption through accumulation. As a result, it confuses the demarcation between primary distribution and re-distribution and between consumption and accumulation. It makes central finance

and local finance increasingly involved in the distribution of individual consumption and converts a large slice of residents' consumption into a financial burden and makes it difficult for finance to display its regular functions. In particular, because the state restricts the increase and undulations in wages, the rigid character of the price structure is increased. This makes it difficult to rectify the twistings in the price structure, contaminates the environment of the national economy and adds to the difficulty in the reform of enterprises.

Hence, the distribution form of the low wage supply system is the important cause of the inflation in consumption demand and investment, the increase in financial deficits and lowering of the effects of the national economy.

Reform of the distribution system calls for return to the principle of pay according to work and commodity exchange. The key lies in reforming the distribution form of low wage supply system the special feature of which is egalitarianism, enforcing the wage system of pay according to work and abolishing the various kinds of open and secret subsidies of an egalitarian nature all of which should be incorporated into wages and pay according to work. The major point in the use of the purchasing power of the staff members and workers is to lead it in the direction of residence buying and any surplus to other purchases. By so doing, we can readjust the consumption structure, enable residences to go on the track of commercialization, rid the state of the investment burden of the residence supply system and concentrate financial power to speed up the development of the basic facilities and basic industries. The thoroughgoing reform of the low wage supply system will liberate national finance from the bondages of various kinds of subsidies and investment distribution, improve the functions of public consumption and accumulation, strengthen the active role of national finance on development of the industrial structure and local economy, and promote the national economy's entry into a benign cycle.

Abolishing the low wage supply system and enforcing the full wage system is not equivalent to high wage and high consumption which depart from the actual production level. On the contrary, because waste can be avoided in the distribution of total wages and, moreover, can develop restraints on actual consumption, consumption fever and consumption demand inflation will be vigorously controlled. At the same time, the fear that full wage will increase the financial burden is not at all necessary. Incorporating the supply portion into wage is only distributing it through the channels of money and market. There is no increase in financial expenditure, the net financial revenues will not be reduced. On the contrary, as a result of the savings made in distribution and stimulating the residents' savings, distribution of the financial funds can be more effectively and economically realized, thereby strengthening the role of finance in public consumption and accumulation. Distribution of the means of consumption through paying full wages and

market regulation will surely rectify the situation of the co-existence of shortage and surplus and cut down on the waste caused by the irrational distribution structure. At the same time, the full wage system will launch a powerful assault on the production form of ownership by the departments, each doing things in his own way and the "enterprises running society," speed up the socialization and specialization of production, accelerate the speed of merging of funds and accumulation, and greatly elevate the macroeconomical effects of the national economy. It is true that following the principle of pay according to work in reforming the wage system will inevitably widen the grade-gaps in the monetary income of the staff members and workers but in the initial stage of socialism this is unavoidable for the sake of differentiating the different contributions of labor, encouraging the capable ones to do more work, rewarding diligence, punishing laziness and regulating the distribution of labor of society. It is also the objective demand of the development of the productive forces.

In research on the low wage supply system, a new line of thought is offered on reform of the structure: Economic reform, aside from reform of the production and management structure, should proceed as soon as possible to reform of the distribution system. The proposal is: Starting from readjusting the wage structure, we readjust the consumption structure and through guiding consumption we can proceed to readjust the investment structure and the economic structure. By so doing, we can make social production face squarely social demand backed by the ability to pay, thereby readjust production, guide production and truly take satisfying the people's consumption demand as the objective of socialist production.

(The author is indebted to comrade Li Hongguang [2698 1347 0474] for his help in collecting and sorting the materials for this article and also for his valuable suggestions.)

Footnotes

1. Deducting from the 158.639 billion yuan of urban residents' actual consumption not computed into the wages the amounts of monetary outlay in the form of separation funds, subsidies for hardship in living, burial compensation funds, and various kinds of bususes and subsidies, the gross volume of non-monetary consumption is obtained.

2. "On National Industrialization and the Rightist Tendency of the Bolshevik Party," *Selected Works of Stalin* Vol 2 p 91

Need for Labor System Reform Termed Urgent
40060107 Beijing JINGJIXUE ZHOUBAO
in Chinese 30 Oct 88 p 2

[Article by Yuan Dong 6678 0392, reporter: "Labor System Reform Extremely Urgent; Economist Feng Lanrui Discusses Three Major Obstacles To Eliminating Hidden Unemployment"]

[Text] China's economic reform and development have entered the key stage of conversion from an old to a new system. In studying the new characteristics and contradictions of the present reform situation, people have discovered that the slowness of employment system reform is an important cause of the difficulty of carrying forward a number of important strategic plans for implementing reform and the constant intensification of pressure from inflation. Therefore, I interviewed the economist Feng Lanrui [7458 5695 3843], who has done a lot of research on employment theory.

Ms Feng Lanrui told me that study of the employment issue by China's theoretical economics circles started rather late; it didn't actually begin until the beginning of the 1980's. Prior to this, blinded by the traditional idea that unemployment does not exist under socialism, unemployment, which had already emerged in the 1970's, was not acknowledged. Employment theory concerning this was not studied, and this serious social issue was not seriously dealt with. By the end of the 1970's the number of unemployed youths in China's cities and towns had reached over 10 million, attracting worldwide attention. Theoretical circles began to study the issue of unemployment. Feng Lanrui was one of the economists who took up this issue relatively early.

Feng Lanrui believes that the practice of reform urgently needs our own socialist employment theory, because today, 10 years after China's economic system reform was launched, hidden unemployment and the economic and social problems derived therefrom have become increasingly serious. She says that according to conservative estimates, there are about 15-20 million redundant personnel in China's state-run enterprise units and national organizations. This not only causes vast economic waste, it also has serious adverse effects on society. For example, a survey by Shanghai Municipality shows that a "vicious cycle of labor, income, and initiative" exists in Shanghai's state-run enterprises, and that the current employment and distribution systems "give rise to idlers." Labor initiative among staff and workers has declined to the lowest point in history, to the extent that enterprises have had to hire temporary workers, bringing about a large rise in enterprise labor costs and a progressive year-to-year decrease in enterprise and local revenue. From 1984 to 1986, labor cost for consumption per unit of output value rose by one-fourth, while labor

cost for consumption per unit of profit rose by three-fourths. Such a situation not only confronts enterprises with serious difficulties, it also leads to consumption inflation and currency inflation and creates difficulties for wage price reform.

Next, Feng Lanrui analyzed, from a theoretical standpoint, the causes bringing about this situation. She stated that the increasing seriousness of the problem of redundant personnel and hidden unemployment were due primarily to the following obstacles: First, psychological obstacles or traditional thinking. Such thinking misconstrues the theory of socialist superiority and holds that unemployment cannot and should not exist under socialism. This involves the theoretical concept of unemployment. Actually, what is usually called "waiting for employment" is unemployment, and redundancy of personnel is essentially a type of hidden unemployment. Secondly, there are system obstacles, primarily in the unified labor distribution system, fixed-wage system, and the labor force's department, unit, and regional ownership systems. Thirdly, there are interest obstacles. The employment system gives staff and workers security, and the relationship between staff and workers and their units, which is in a sense one of personal dependence, also causes a corresponding rigidification of interest relations.

How, then, can these obstacles be surmounted? Feng Lanrui believes that it is first necessary to firmly adhere to practical and realistic Marxist historical materialism, correctly understand the various types of unemployment phenomena which already exist, and acknowledge that under conditions of social progress, due to the inevitability of changes in the industrial structure, renovation of technical facilities, improvements in technical processes, and departmental labor productivity fluctuations, unemployment is unavoidable under either capitalism or socialism. Next, we should actively carry forward various labor personnel system reforms, such as a contract worker system, flow of talented personnel, and the like. Third, at the same time we are carrying forward enterprise reform, price reform, and wage reform, we should carry forward reform of the social welfare security system and on this basis change hidden unemployment into open unemployment, and change unemployment in the factory into social unemployment. Fourth, after bringing unemployment out into the open has played its role as an important factor in forming a labor market, the conditions will exist for establishing a macroregulated labor market, and we should adopt a standardized method, based on such existing lines of thought as a "service market," "talented personnel exchange center," and "labor employment office," of gradually fostering a multilevel labor market which is both distinct from a completely free labor market and also different from a labor service company which organizes and controls the labor force. The state, through economic policies and economic levers, can provide guidance for this, and make it serve the needs of the state's macroeconomic development.

'Important' Role of Labor Unions in Reform of System

40060143 Beijing LIAOWANG in Chinese
No 45, 7 Nov 88 p 20

[Article by Xu Zhenghui 1776 2398 6540: "Labor Unions To Play an Important Part in the Reform of the Labor System"]

[Text] As the reform of our labor system is now being developed in greater depth in order to improve the composition of the labor force and to introduce competition into the hiring process, it will come into sharp conflict with the old labor system, which was mainly characterized by centralized assignments under contract and rigid employment practices. The interests of millions of staff and workers will be readjusted during this shakeup, and the "iron rice bowl" complacency as well as the concept that it is only "just and fair" to have everybody employed in some kind of job, will come under attack. In the course of this broad and thorough reform of the labor system, the labor unions must play an effective and important part.

Initiating Ideological Education; Updating Employment Concepts

Many among the vast masses of China's staff and workers have come to realize the inadequacies of China's labor system, as these inadequacies have become apparent in the current condition of China's economy. They understand the reform, endorse the reform, and consciously join in the reform effort. However, staff and workers of different age groups and at different levels do not necessarily show the same willingness to go along with the reform. Young staff and workers or technical personnel prefer free mobility because of their advantages of youth or skills. Middle-aged and old staff and workers are more anxious about losing their jobs because of heavy family obligations and physical decline. Female staff and workers are concerned about discrimination because of physical or biological factors. Staff and workers who have already been found redundant are generally emotionally greatly distressed and disconcerted. Some staff and workers do not understand what the reform is about; they think of it as "reforming out of existence the superior qualities of the socialist system, the rice bowls in our hands, and the powers of the working class!" Because they cannot see any sense in why they would lose their jobs, also feel powerless to avoid losing their jobs and fearful of not finding a way to make a living, some staff and workers become disgruntled. These conditions show the need that exists throughout the entire labor reform process for some of the labor union organizations to initiate propaganda education, starting out from the realities of their particular units and employing a variety of patterns, an education which would help staff and workers to adjust to the new employment

concept, which would raise their mental receptiveness for reform, and which would have them understand reform, support reform, and actively take part in the reform effort.

Positive Suggestions for the Placement of Surplus Personnel

Reform of the labor system is a complex project of system engineering, beset with many difficulties. Currently, one of the great difficulties is how to effectively place surplus personnel.

For the purpose of adequately placing personnel that is found surplus in the various enterprises, while at the same time ensuring orderly progress of all production and work, and ensuring social stability, labor union organizations must actively assist the administrative departments, provide a variety of favorable conditions, and adopt different measures according to the different conditions of the surplus personnel in question, to arrange for their placement and find an appropriate position for every one of them.

The labor unions must assist the administrative departments in an effective retraining of surplus personnel. In addition to intensified ideological education and their appropriate placement, surplus personnel who have lost their jobs due to retrenchment must also be urged to improve their general education and technical skills, in order to become better equipped for job changes and gain greater competitiveness in the job market. It is in these respects that labor union organizations must actively assist the administrative departments in a diversified professional retraining. If some staff and workers are found unsuitable to be placed in certain jobs due to insufficient technical skills, they may be given specialized technical training to improve their technical qualifications, which would provide them with many different capabilities in their lines of specialization and thus render them employable in a great variety of jobs. As to the few staff and workers who cannot again be placed due to laziness or bad attitudes, they should be subjected to education in legal discipline, labor discipline, and professional ethics, to help them elicit the causes for their inability to be reemployed, also to overcome their shortcomings, rectify their work attitude, and to make their early reemployment possible.

The Protective Role of Labor Unions in the Composition of the Labor Force

As the reform of the labor system is pursued in greater depth, the enterprise administrations will gain greater powers in the hiring, assignment, and discharge and retirement of redundant staff and workers. Since there are presently still instances of such decadent practices as bureaucratism, misuse of powers of office for private gain, and abuse of powers, it is the unshirkable duty of labor union organizations to protect the legitimate interests of staff and workers.

In today's reform in China, the position of staff and workers as masters of the enterprises remains unchanged, and no infringement of the democratic rights of staff and workers is allowed. Plans for labor system reform in enterprises, including planned composition of the labor force, planned resignation and dismissal of staff and workers by the enterprises, and plans for placement of surplus personnel, must all be discussed, examined, and approved by the staff and workers representatives congresses. The labor union and the staff and workers representatives congresses may veto unreasonable provisions in these plans, or suggest supplements or amendments to them, so as to perfect these reform plans. They should also supervise the proper implementation of the plans by the administrative departments, and ensure that the reform plans are institutionally put into effect.

In the composition of their labor force and in giving priority consideration to "excellence" in the selection of candidates for jobs, some enterprises neither set criteria for "excellence," nor do they properly assess the "excellence" of their candidates, which actually makes for a situation of "fitting job criteria to persons." There are some leasing enterprises where the lessor abuses his powers of office and willfully discharges staff and workers, or even takes advantage of the redistribution of labor, to replace the whole work force and in their stead hires his relatives and friends. Some enterprises which operate at a low rate of profitability are most eager to rid themselves of their own burdens by saddling society with their contradictions. To cope with situations of this nature, the labor union organization must uphold its principles, fight for the just cause, and protect the labor rights of staff and workers according to law. In the composition of the labor force, the principle of "consultation as between equal parties, and selections that are acceptable to both sides" must be upheld, while unhealthy tendencies in the formation of the labor force must be resolutely resisted. We must uphold the principle: "We can remedy laziness, but not old age; we can remedy the deceitful, but not the weak." We must pay careful attention to the labor market. We must regularly check the conditions under which redundant personnel are newly introduced into the labor market, to see whether the prescribed conditions for retirement or dismissal of staff and workers have been violated. Any violation must be immediately reported to the administrative departments, and the departments concerned must be supervised to ensure that they take appropriate action. Where power is used instead of applying law, where things are decided by the command of a man instead of according to law, where the legitimate interests of staff and workers are infringed upon, or if malpractices are rampant in business operations, the labor unions have the right to call on the departments concerned that they inquire into the administrative and legal responsibilities. If serious consequences result from bureaucratism, the labor unions must call on the relevant authorities to impose stern sanctions.

TRANSPORTATION

Minister on Developing Country's General Aviation

40060116 Beijing GUOJI HANGKONG
[INTERNATIONAL AVIATION] in Chinese Oct 88 p 4

["Summary" of speech by He Wenzhi 0149 2429 3112, vice minister of the Ministry of Aeronautics and Astronautics Industry, at a national symposium on general aviation policy on 16 July 1988 in Northeast China: "Be Realistic and Focus on the Future in Developing China's General Aviation"—first paragraph is source-supplied, English abstract]

[Text] *Mr He Wen-Zhi, vice minister of the Ministry of Aero-Space Industry, addressed a symposium on policy for developing general aviation in China, which was held in North-East China on July 16, 1988. In his speech, he urged painstaking effort in development of a general aircraft market and a general aviation service. He appealed to the departments concerned for giving subsidies, reducing taxes, and supplying aero-fuel at ordinary prices in order to support the country's general aviation. Furthermore, he said the development of general aircraft in China should be based on self-reliance.*

I. The Status Quo of General Aviation

We must be realistic and use a practical scientific approach when formulating policy. What is the present status of China's general aviation?

A. Results Have Been Achieved and a Good Foundation Has Been Laid

China's general aviation began with locust extermination and forest protection in 1951 and then gradually expanded into other areas, developing into a general aviation corps of more than 200 aircraft. It has been involved mainly in farming and forestry work for some 30 years. China's civil aviation system alone has done 610,000 hours of farm work in China's 29 provinces, municipalities, and autonomous regions from 1951 to 1987, handled an area of 1.27 billion mu, sown and afforested 260 million mu, sown over 15 million mu of forage grass, and achieved very good results. It has also made a certain amount of progress in industrial aviation fields, such as aerial remote sensing, photography, mapping, power line construction, mineral resource prospecting, oil development, scientific observation, film shooting, emergency rescue, public security patrols, and maritime environmental monitoring.

China began to manufacture general aviation aircraft in 1957. With the help of Soviet experts, it copied its first An-2 airplane, which was called a Yun-5 in China. Since it was safe and reliable, could fly at minimum altitude, was fairly well-equipped, and had many uses, it was unanimously well-received in all areas.

It is understood that the Soviet Union has 12,000 An-2 aircraft still in service and still buys them from Poland. Poland still produces over 300 An-2s a year to supply Eastern European countries and the Soviet Union. Since China is a developing country and, even more so, since we are in the initial stage of socialism, we should tap our existing aircraft production potentials and make farming and forestry aircraft in China.

The Yun-11 was produced according to the joint decision of six ministries and commissions. It was appraised by the National Aviation Product Design Finalization Commission in 1977, but only 27 were produced. In order to use these Yun-11s, the Ministry of Aviation Industry joined with the Ministry of Geology and Mineral Resources and the Xinjiang Construction Corps to set up the Flying Dragon Corp and the Xinjiang Aviation Service Team. They have been very well-run in the past few years, and this shows that there are bright prospects for general aviation.

B. China's General Aviation Is Far Behind International Standards

There are now about 26,000 agricultural aircraft throughout the world, while China has only slightly more than 200, or only 2-3 percent of the Soviet Union and the U.S. and less even than countries such as Australia, Poland, and New Zealand. Statistics published in 1982 by the International Agricultural Aviation Center show that 38.5 million mu, or only 2.6 percent of China's cultivated area is handled by agricultural aviation, while this figure is 40-50 percent in developed countries.

China is now formulating medium- and long-range S&T development plans based on Comrade Zhao Ziyang's report to the 13th CPC Congress and Comrade Li Peng's government work report. We are studying and formulating medium- and long-range development plans for the aero-space industry, of which the development of general aviation aircraft should be an indispensable part.

C. The Demand Is Pressing and Exceeds the Supply

China has a vast territory and our development of general aviation aircraft is far from being able to meet the needs of industrial and agricultural production. The China Civil Aviation Administration recently reported to the State Council that over 300 agricultural aircraft were needed by all areas in 1988, the Civil Aviation Administration had less than one-half of these, there was a big shortage, and it could only make limited arrangements for key regions and tasks. Since demand exceeds supply, some peasants have spontaneously begun to handle their own aviation. For instance, the treetops of a rubber plantation on Hainan Island became infected with powdery mildew, which could not be sprayed from the ground. A 500-meter dirt runway was built, a Yun-5 was rented to spray insecticide, and very good results were obtained for an average of only a few jiao per mu. Peasants in provinces, such as Shaanxi and Henan, have

also raised money to buy aircraft, which shows that there is a very pressing demand. China's demand for farming and forestry aircraft will be close to 1,000 before the end of the century.

D. Much Progress Is Expected in the Development and Production of General Aviation Aircraft

We know that there will certainly be much development of general aviation along with the growth of the national economy. Therefore, with the vigorous support of the State Planning Commission, the State Science and Technology Commission, CAAC, and all relevant departments, we have made the following overall plans for the development of general aviation aircraft in the Seventh 5-Year Plan:

Large Aircraft: The Yun-5B will have a freight capacity of 1.5 tons and be an improved and modified Yun-5. Priority will be given to improving its electronic equipment, reducing its structural weight, installing more air conditioning and ventilation systems, converting to Polish engines and screws, and using U.S.-designed agricultural spraying systems. Two have been trial-produced, are undergoing test flights, and are expected to obtain domestic supplementary model certification by the third quarter of 1988.

Medium-Sized Aircraft: The Yun-11B will have a freight capacity of 1.2 tons, be based on the Yun-11 that is produced by the Harbin Aircraft Plant, have a 400-hp engine and increased feathering function, and meet the need for single-engine climbing airworthiness. Its test flights are expected to be finished and its model certification obtained in 1990.

Small Aircraft: The Nong-5 is a new single-engine, single-seat, 400-hp agricultural airplane with a freight capacity of 800 kg that has begun to be developed by the Nanchang Aircraft Plant. Its test flights will be finished and its domestic model certification obtained in 1990.

None of these agricultural aircraft can be mass produced until the Seventh 5-Year Plan. In order to fulfill pressing farming and forestry needs, certain short-term emergency measures will be taken, such as continuing to plan and build approximately 50 aircraft, such as Yun-11s, for consumer use.

As to helicopters, production of the Zhi-5 which was modelled on the Mi-4 was stopped in 1980 after 545 were produced. As to the development of helicopters, in accordance with the written instructions of the State Council and the Central Committee Military Commission on development of a series of helicopters and the Seventh 5-Year Plan, the Ministry of Aeronautics and Astronautics Industry is planning to develop and produce a series of heavy, medium-weight, light, and extra-light helicopters in the following four grades:

1. Over 12-Ton: Three of the Zhi-8 that is modelled on the automatic mapping "Super Wasp" have been produced and are being tested.

2. 8-Ton: Preparation and development have begun.

3. 4-Ton: The Zhi-9 is an imported French "Dolphin" helicopter, and 38 of a planned 50 have been assembled. The next step will be to speed up making them in China and strive to make 89 percent of them in China by 1990. The structural weight of the "Dolphin" is only one-half of its total weight, compound materials make up over 40 percent, and it is fairly advanced. The Zhi-9 is a new beginning for China's development of helicopters.

4. 2-Ton: The Zhi-9's technology will be used to develop and produce a 2-ton "Minidolphin."

E. Formulation of Protective and Supportive Policies Is Urgently Awaited

A major reason why China's general aviation is developing slowly in spite of pressing demand is that policies are inadequate. This has restricted the development of farming and forestry aviation. For instance, the Xinjiang Aviation Service Team used 10 Yun-11s to create 2.5 million yuan in socioeconomic results in 1985 and raise agricultural income about 8 million yuan in 1986, while sustaining losses of 400,000 yuan a year. Furthermore, the Agricultural Aviation Team has been able to buy but not maintain aircraft for the following three reasons: 1. Gasoline prices are high while work charges are low. Agricultural aviation generally has no quota for ordinary priced gasoline and must pull all kinds of strings to buy expensive fuel, which makes its flight cost per hour higher than state-stipulated work charges; 2. Aircraft parts are hard to get and "military prices" must often be paid for help in getting them; 3. Overhaul costs are high, with the Yun-11 having to be overhauled after every 200 hours of flight for as much as 15,000 yuan. The cost for overhauling a compass output amplifier is as much as 50 percent of its production cost. In summary, agricultural aviation operating losses are due simply to inadequate policies. We must formulate protective and supportive policies as soon as possible in order to speed up the development of general aviation.

II. Policy Proposals for Developing General Aviation

A. Lessons Should Be Learned From Overseas Experiences and Distinct Chinese Characteristics Should Be Developed

In line with the new situation of reform and opening to the outside world, aviation industry development must have military and civil coordination, put military projects first, give civil products a leading role, become world-oriented, and strive to serve the national economy and national defense. Comrade Zhao Ziyang recently

called for us to "change our priorities from military to civil, change our orientation from domestic to foreign, and cooperate in tackling key problems."

In developing general aviation, work must be done first to open up markets. This has also been the experience overseas. The U.S. set up two aviation bureaus. One was an airworthiness bureau that managed mainly quality and safety, while the other gave special support to helping aviation companies open up markets. China should do this also and history has placed this market development job on the shoulders of the Ministry of Aeronautics and Astronautics Industry. Therefore, we are making active preparations to set up the Civil Aircraft Development and Sales Corp. We expect the state to approve the establishment of this corporation and support it with policies and funds.

B. Relations Between Buying Airplanes Made in China and Those Made Abroad Must Be Handled Correctly

China has developed mainly military aircraft, while passenger planes needed for civil aviation have been mostly imported. Large and medium-sized airliners, such as Boeing 747s and 737s, must still be imported. But general aviation airplanes, farming, and forestry airplanes in particular, should be made in China and we should develop whatever consumers want.

Comrade Deng Xiaoping pointed out in 1981 that "domestic airlines must use airplanes made in China." Comrade Li Peng has flown in a Yun-7 and has issued repeated instructions on developing airlines and improving the Yun-7. The State Council has granted funds to the Ministry of Aeronautics and Astronautics Industry to develop civil aircraft in the Seventh 5-Year Plan. This shows that the central authorities are especially concerned with the development of civil aircraft.

Zou Jiahua [6760 1367 5478], State Council member, recently wrote in Civil Aviation Administration Document No 124 that "China has an aviation industry that has been developing for some decades, and I think that our needs for agricultural aircraft must be met in China. Regardless of the difficulty, our aviation industry is certainly able to fulfill the task of supplying agricultural aircraft. Therefore, I think that we must not import them, but must present our demands to the Ministry of Aeronautics and Astronautics Industry. Moreover, since the central authorities have always advocated the development of agriculture, fulfillment of the job of supplying agricultural aircraft should be particularly emphasized." Fulfillment of these directives should be particularly emphasized at this symposium on general aviation.

C. Favorable Policies Should Be Formulated That Correspond to General Aviation Development Conditions

1. Farming and forestry departments and relevant areas should be actively encouraged to engage in agricultural aviation. The aviation industry must continue to do a

good job of running agricultural service teams. All of the 11 aircraft plants that have airport facilities must set up aviation service companies modelled on the China Flying Dragon Aviation Corp, expand their service, and gradually increase the number of their aircraft to about 100 in the Seventh 5-Year Plan, which will require about 50 million yuan in state loans. Moreover, lateral joint ventures must be developed to handle aviation services for all areas and departments.

2. Price subsidies and tax reductions and exemptions should be given for agricultural aircraft that are made in China. Since the prices of China's agricultural products are low and a limited amount of funds can be used for agricultural flights, it is proposed that the state adopt economically supportive policies, giving price subsidies and product and appreciation tax reductions and exemptions to buyers. Moreover, agricultural aircraft that are made in China should be supplied with fuel at ordinary prices.

3. It is proposed that the state improve its air communications management methods in line with farm work characteristics, both ensuring safety and facilitating the task of performing farm and forestry work.

Chengdu-Chongqing Road Construction Begins

*HK0811134588 Beijing CEI Database
in English 8 Nov 88*

[Text] Chongqing (CEI)—The construction of a high-quality road between Chengdu, the capital of Sichuan Province and Chongqing has begun here.

The new road will be 340.2 kilometers long, 88.1 kilometers of which will be of first grade and 252.1 kilometers of second grade. It is about 98 kilometers shorter than the present highway.

Total investment for the project is 1.14 billion yuan, partly covered by a World Bank loan of 125 million U.S. dollars.

Scheduled to be completed in 1993, the highway will enable travellers to ride from Chongqing to Sichuan in five hours.

AGRICULTURE

Foreign Cooperation Sought in Production, Export of Edible Oil

Use of Domestic, Imported Machinery

*OW0411044888 Beijing XINHUA in English
0236 GMT 4 Nov 88*

[Text] Beijing, October 4 (XINHUA)—China is seeking overseas cooperation to expand its production and export of edible oil, according to the Ministry of Commerce.

The plan is to update the country's oil processing factories with domestically-made as well as imported machinery, CHINA DAILY reported today.

The ministry estimates that by 1990, 60 percent of the output of edible oil will be through solvent extraction. China has imported 67 complete sets of production equipment, including processing and extracting systems for beans, cotton seed and rice bran, from Federal Germany, the United States, Japan, Sweden, Belgium and Italy, said an official with the ministry's Grain and Oil Industry Department.

In 1987, the country's oil crop processing ability was 18 million tons, up 6.4 million tons from 1980, with the help of advanced equipment imported from abroad. In 1987 the output of vegetable oil was 2.9 million tons, 1.55 million tons more than in 1980. The output value of the cereal and oil industry was 5.6 billion yuan more than in 1980, according to ministry figures.

However, the standards of edible oil in China are still low compared with other countries. The state supplies each person with 5 kilograms of food oil at the state fixed price every year. Demand above that amount is met from the free market at negotiated prices.

China ranks among the world's top five importers of edible oil. In the first seven months of this year, China imported 101,849 tons from Singapore, Spain, Brazil, Argentina and Japan, with 209,87 tons of palm oil and 48,520 tons of soy-bean oil being the chief imports, according to statistics of the State General Administration of Customs. More than 173,000 tons of edible oil were imported between January and July last year.

At the same time, a number of Sino-foreign ventures have been set up in China to produce edible oil for export.

Cooperative Ventures Begun

*HK0411023088 Beijing CHINA DAILY
in English 4 Nov 88 p 2*

[By staff reporter]

[Excerpt] China's edible oil industry remains backward despite its rapid development over the past few years. This was because of poor management, backward processing technology and a shortage of oil crops, the department official said.

"Only a few factories have been equipped with imported equipment. Many of the country's 1,460 food oil factories are still using backward machinery each with a processing capacity of 50 to 100 tons a day," he added.

In order to develop co-operation with foreign countries and earn hard currency, a number of Sino-foreign ventures have been set up in China to produce edible oil for export.

China exported 15,419 tons of edible oil to Japan, Singapore, Malaysia, the Netherlands, and Britain from January to July this year, including peanut oil, soybean oil and sunflower oil, according to customs statistics.

Last year, China exported 521,429 tons of edible oil, including 427,231 tons of soybean oil and 5,007 tons of peanut oil.

Minister Stresses Water Conservancy for Grain
OW0611152688 Beijing XINHUA in English
1256 GMT 6 Nov 88

[Text] Beijing, November 6 (XINHUA)—The Chinese minister of water resources has called for renovation of existing water conservancy projects and build new ones to pave the way to achieving an annual grain output of 500 million tons at the end of this century.

Addressing a national rural work conference, which opened here today, Minister Yang Zhenhuai said a total of 11 million hectares of farmland in China's 14 provinces were flooded last summer.

Meanwhile, drought hit another 32 million hectares in six provinces in the year.

The minister attributed China's incapacity to cope with natural disasters to the negligence of water conservancy projects in the last few years.

Major flood control projects will be built on the country's seven largest river systems including the Yangtze and Yellow Rivers, Yang said.

The country will also build new irrigation and drainage projects on the northeast China plain and north China plain in a bid to increase annual grain output in these areas by at least 40 million tons at the end of this century.

His ministry plans to bring 50 million hectares of farmland under irrigation by 1995 and improve 11 million hectares of poor farmland, the minister said.

Agricultural Data Bank To Be Created
OW1411025488 Beijing XINHUA in English
0913 GMT 11 Nov 88

[Text] Beijing, November 11 (XINHUA)—China is to build a large scientific data bank capable of holding one million pieces of agricultural information by the year 2000.

At present, the China Agricultural Information and Documentation System has 35.6 million pieces of Chinese and foreign agricultural information, today's PEOPLE'S DAILY reported from the ongoing National Agricultural Information Conference in Beijing.

Minister of Agriculture He Kang said that Jiangsu, Hebei, Hubei, Shaanxi, Sichuan, Guangdong, and Liaoning provinces have already set up branches of the system, according to the paper.

There are now 5,700 people at provincial level engaged in information collection and processing, the paper said.

Article on Increasing Agricultural Investment
HK2911044588 Beijing JINGJI CANKAO in Chinese
7 Nov 88 p 1

[Article by reporter Wang Zuoli 3769 0155 4409: "Raising Funds From Various Sources To Increase Agricultural Investment"]

[Text]

The Bitter Fruit of Reduced Input Is the Fluctuations in Grain Output

The success of China's rural reform has greatly aroused the production enthusiasm of the 800 million peasants, thereby fully releasing the energy of various production factors. In 1984, China reaped a record harvest, with total grain output surpassing 400 billion kg and the nation's per capita grain consumption approaching the 400-kg level.

However, China's grain output declined by 25 billion kg in 1985. Although the output in 1986 and 1987 was higher than that of 1985, it failed to return to the level of 1984. A decline in grain output this year is certain.

More and more people have come to realize that a major reason for the fluctuations in grain production in the past 4 years is the reduction in agricultural investment.

The state's investment of funds: Investment in agricultural capital construction accounted for 7.1 percent of the total investment in capital construction during the First 5-Year Plan, 11.3 percent during the Second 5-Year Plan, 17.7 percent during the 3-year readjustment period, and about 10 percent from the Third to the Fifth 5-Year Plans. It dropped to 5.1 percent in the Sixth 5-Year Plan, to only 3.0 percent in 1986, and to 4.8 percent in 1987. In the Sixth 5-Year Plan, the fund for agricultural undertakings accounted for 6.3 percent of the total financial expenditure, a drop of 0.3 percentage point from that in the Fifth 5-Year Plan, which stood at 6.6 percent; it dropped to 5.3 percent in 1986 and to 5.09 percent in 1987. Investment in the agroindustry dropped by 5,691 million yuan in the Sixth 5-Year Plan over the Fifth 5-Year Plan and by 3,466 million yuan over the Fourth 5-Year Plan. In 1987, investment in the agroindustry accounted for only 3 percent of the state's total investment in capital construction.

Local financial investments: Financial investment to aid agriculture has drastically dropped in all localities. In Jiangsu Province, it dropped by 26.2 percent in the Sixth

5-Year Plan over the Fifth 5-Year Plan; in Shandong Province, investment in agricultural capital construction, which accounted for 11.1 percent of the province's investment in capital construction in 1978, dropped to 1.97 percent in 1987. In the 5 years between 1978 and 1982, the nation's township and town enterprises contributed 16.5 billion yuan to aid agriculture, an average annual expenditure of 3.3 billion yuan; in the 5 years between 1983 and 1987, however, the average annual expenditure dropped to 1.48 billion yuan. For the sake of immediate interests, many peasants are carrying out predatory operations. They rarely invest in agricultural capital construction.

Potential for Increasing Agricultural Investment Should Be Tapped

To resolve the problem of agricultural development, especially the development of grain production, we should adopt a comprehensive measure, but the most important measure is to increase funds for agricultural production while continuously deepening the reform.

Is it possible to increase agricultural investment? Can our finances handle this? Some people say that during the 3-year readjustment period in the early 1960's, when our economy was in a fairly difficult position, we managed to squeeze out a lot of money and raise the ratio of agricultural investment in the total capital construction investment to 17.7 percent. Our national strength today is much different from, and is incomparably better than, in the past, why can't we squeeze out some money to increase agricultural investment?! Some others say that, while investment in agricultural capital construction has been substantially reduced over the past few years, the nation's investments in such capital construction projects as industry, tourism, and other trades and professions have swelled year after year. Luxury guesthouses, office buildings, auditoriums, and restaurants have been built one after another, churches and temples have been renovated row after row, and the wind of importing high-grade sedans has blown again and again. Since we pay huge amounts of money for all these, why can't we squeeze out a little to give some "nourishment" to agricultural production, which lacks the capacity for future development?! Still others say: The central authorities' determination to substantially reduce investment in non-agricultural capital construction has made it possible for the central finance to increase agricultural investment. The commercialization of housing, the sale of public housing, and the paid transfer of the right to use state-owned land are expected to yield considerable income. In comparison, an increase of one or two billion yuan in agricultural investment a year is only a small amount. Naturally, the above-mentioned money belongs to different bodies and has its own special uses. However, we can see from this that it is not impossible to increase agricultural investment.

State Investment Constitutes Only One of the Ways

The party central committee and the State Council have always stressed that agriculture is the foundation. They

have repeatedly called for increasing agricultural investment, supporting grain production, and raising the proportion of agricultural investment to about 18 percent. However, for various reasons, some economic departments have faced many difficulties in distributing investment funds and working out plans and thus failed to meet the demands of the central authorities.

At a meeting held on 29 October to discuss the question of agricultural development, the Political Bureau of the CPC Central Committee again stressed the need to increase agricultural investment. It should be said that it is indeed difficult for a country with a financial deficit for several years running to invest more money in agriculture.

In agricultural investment we cannot exclusively rely on the state budget.

In agricultural construction, apart from the state's planned arrangements for investment in capital construction, there are also a dozen or so funds for aiding agriculture, such as the land development fund deriving from cultivated land use tax, subsidies for small farmland water conservancy projects, funds for the building five farm and sideline products bases, and the special fund for subsidizing agriculture with industry. These funds come to more than 10 billion yuan annually, which is more than the state's budgetary investment.

The Solution Lies in Raising Funds for Agricultural Development From Various Sources

The way out today is to adopt multi-channel, multi-level, and multi-form measures for increasing agricultural investment. Only by expanding the sources of fund, increasing the capacity of agriculture to use various funds, and gradually developing a virtuous cycle in agricultural investment is it possible to constantly increase agricultural investment.

An important channel to expand the source of funds is to strengthen the localities' responsibility for agricultural development and to increase their agricultural investment. Since the revenue and expenditure between the central and local governments were divided, the local governments have collected a lot of money. Instead of increasing agricultural investment, some leaders pay attention only to running industry, tourism, and hotels, which yield high economic results. Some people suggest that, in the future, there should be an appropriate division of work and designation of scope between the central and local governments concerning agricultural investment. The central government's investment should primarily be used in such major projects as harnessing multiprovincial big rivers, establishing large commodity grain bases, and transforming low-and medium-yield land over large areas, while agricultural investment in other fields should depend more on the local governments and rural accumulation. It is necessary to guide and encourage the peasants to invest more money

or labor in agriculture, either by collective or individual investment. It should be noted that the main source of investment should come from peasants. According to a source, of the 300-odd billion yuan of savings deposits in urban and rural banks throughout the country, half belong to peasants. Since having money, some peasants have lost their investment direction. Some have been busy building new houses and repairing the tombs of their ancestors. This reporter has been to some places in Jiangsu, Anhui, and Zhejiang, as well as Wenzhou, where some green hills have turned white because of the many magnificent tombs everywhere. It is not known how much money and building materials have been wasted. If the peasants pool the surplus, idle, and freely-spent money in their hands and put it into agriculture, it is possible not only to invigorate agriculture but also to increase the value of their money. The problem is that it is necessary to create a better investment environment for peasants in terms of farm produce prices and long-term land use.

Increasing the Capacity of Agriculture To Use Various Funds

In increasing agricultural investment, it is also necessary to increase the capacity of agriculture to use various funds. We can attract urban capital and capital from other provinces by carrying out multitrade and multiprovincial lateral association. Some relevant experts stressed that, given the limited financial strength of the government, it is necessary to cultivate the peasants' capacity to use the agricultural investments credits granted by the Bank of Agriculture, which should extend credits on projects needing little capital and yielding great profits and quick results, in order to expand investment funds in agriculture and even grain. By utilizing foreign capital in agricultural capital construction we can not only make up for the deficiencies in funds but also importing advanced technology and equipment to speed up agricultural modernization. The scope and amount of foreign capital used in China's agriculture have constantly expanded in recent years and there is still great potential in the future. So long as the local authorities and the enterprises coordinate their funds satisfactorily and strive to reach a balance in foreign exchange, the use of foreign capital is an entirely feasible source of funds.

Country To Plant More Fast-Growing Trees *OW0511122088 Beijing XINHUA in English* *1513 GMT 4 Nov 88*

[Text] Yinchuan, November 4 (XINHUA)—China will plant fast-growing trees on 20 million hectares of land in the next three decades, an official from the Ministry of Forestry announced here today.

As the first step, the country will build eight forestry centers in northeast, central and south China, each occupying an area of 6.6 million hectares.

State statistics show that China's timber consumption has increased at an annual rate of five to 10 percent. But the country's timber reserves are decreasing even faster, the official said.

To alleviate the timber shortage, China began to plant fast-growing trees as an experiment in the mid-1970s.

A test carried out in [word indistinct] City, an arid area in northwest China's Ningxia Hui Autonomous Region, showed that trees planted in 1985 had grown to an average of eight meters in height and 10 cm in diameter this year. This growth rate is three times as rapid as that of other trees.

These trees can be felled within eight or 10 years, a local forestry official predicted, adding that 158 cubic meters of timber can be produced annually on one hectare of land.

A state forest farm in south China's Hunan Province planted fast-growing China firs on 50 hectares in 1978. After less than 10 years, each hectare now has a timber reserve of 150 cubic meters. This has cut the period needed for the trees' maturity by 15 to 20 years.

State Advocates New Fertilizers *HK1011060288 Beijing CHINA DAILY* *in English 10 Nov 88 p 3*

[By staff reporter Cao Yong]

[Text] New blends of fertilizer, tailored to different soil conditions, are being encouraged in the countryside to protect soil fertility and increase yields, according to a senior official with the Ministry of Agriculture.

By the end of last year, 400 million mu (about 26.7 million hectares), or 20 per cent of the nation's arable land, was fertilized by the new method said Zhang Shixian, deputy director of the Ministry of Agriculture. And harvests on the treated land increased by 8 to 15 per cent.

Zhang spoke on Tuesday in Beijing at the opening of an International Symposium on Balanced Fertilization.

The new method determined what kind of fertilizer should be used by analysing soil fertility and the growing cycles of crops. It relies on organic manure for 50 per cent of the nutrients needed by the farm land, he said.

The new attention to fertilizer has been set by the State as one of the measures to increase agricultural output, he said.

Chinese farmers had a long tradition of using organic manure. But since the late 1970s, farmers have become more interested in chemical fertilizers as a way to obtain quicker results. Meanwhile, they began to look down on organic manure because it was troublesome to collect.

This led to the reduction of organic fertilizer in agriculture. The possibility that this could undermine soil fertility in the long run has aroused the attention of Chinese newspapers recently.

At the same time, human wastes in urban areas are becoming a problem for city governments, most of which lack the capability to process it. If the city wastes could be used, both city residents and farmers would benefit, he said.

At the symposium, specialists also urged the government to emphasize the importance of organic manure by establishing an organization devoted to its management.

The symposium, sponsored by the ministry, is being attended by more than 140 specialists, including 25 from 12 other countries and regions. It will end tomorrow.

Chemical Fertilizer Fund Established

*HK1011113088 Beijing CEI Database in English
10 Nov 88*

[Text] Beijing (CEI)—The state council, China's top governing body, has decided to raise 1.5 billion yuan a year, from 1988 to 1990, as a special fund for chemical fertilizer production.

The money will be used to build chemical fertilizer projects and phosphorus and liver [as published] pyrite mines. The effort will enable China to produce 100 million tons of chemical fertilizer annually by 1990.

Per Capita Cash Income of Rural Households Reported

*HK0811124188 Beijing CEI Database in English
8 Nov 88*

[Text] Beijing (CEI)—Following is a chart showing the per capita cash income of rural households in the third quarter of this year according to statistics released by CSICSC.

	Unit	Jul-Sep 1988	Jul-Sep 1987
Total income	Yuan	157.78	124.57
1. Income from collective	Yuan	8.54	7.11
2. Income from cooperative	Yuan	0.67	0.63
3. Income from farm products and by-products	Yuan	84.61	68.88
4. Other non-production income	Yuan	14.42	11.69
5. Income from savings and loans	Yuan	22.9	17.06

Rural Electricity Consumption Increases

*OW1311055988 Beijing XINHUA in English
1552 GMT 11 Nov 88*

[Text] Hangzhou, November 11 (XINHUA)—Seventy eight percent of the villages and 74 percent of households in China's rural areas are now using electricity, according to Deng Bingli, an official attending a six-day international symposium currently being held here.

Speaking at today's session of the symposium on "rural electrification and economic development," Deng, from the Ministry of Water Resources, said that in 1987, the civil consumption of electricity in China's rural areas amounted to 77 billion kilowatt-hours, and rural industrial use accounted for 77.6 billion kilowatt-hours.

The use of electricity in rural areas accounts for 31.55 percent of China's total and per capita consumption in rural areas is 96 kilowatt-hours, he said.

Comparing Chinese figures with the standard of electricity consumption in developed countries, the amount of electricity used in China's rural areas is rather low, Deng added.

However, the official said, the situation has improved a great deal in comparison to the days when most of the peasants lighted their homes by burning pine branches or lamps.

In 1957, electricity consumption in rural areas was only about 100 million kilowatt-hours and by 1960 the amount of electricity consumed increased to 692 million kilowatt-hours, he went on to say.

The development of China's rural electricity services gained momentum in the 1970s and the present increasing rate of consumption has been 27 percent per year up to now, he said.

Most of the electricity in China's rural areas is used by grain and cotton farmers, he said

China has spent more 13.3 billion yuan to build large hydro-electric power stations with irrigation and drainage net works on the Hangjiahu Plain in Zhejiang Province, the Pearl River Delta in Guangdong Province and in Hubei and Hunan Province.

At the same time, all levels of government help rural areas with rich water resources to develop small-sized hydro-electric power stations and in 1987 the 580 stations in China's rural areas produced 27.7 billion kilowatt-hours of electricity.

There are also 384 power stations built in the counties which are rich in coal resources and they have generated approximately 9.99 billion kilowatt-hours of electricity.

In the Inner Mongolia Autonomous Region, 50,000 wind-driven generators were installed and 50,000 ranching families can now have electric lighting and television service provided by electricity from the generators.

The symposium began on November 7 and will end tomorrow.

Beijing Raises Yield by Concentrating Land
HK0611080888 Beijing CHINA DAILY
in English 5 Nov 88 p 3

[By staff reporter Cao Yong]

[Text] After years of contracting land to individual farming households, the municipality of Beijing has concentrated 68.2 percent of the farmland in its flat-lying areas and put them into various forms of large-scale production.

The measure, also a form of the contract system, was introduced about three years ago and has helped increase yields, said Li Mingrui, secretary of the management station of the city government's Agriculture Office.

For nearly three decades after the founding of the People's Republic China concentrated most of its farmland and farmers had to work in collective bodies such as the people's communes. This "big pot" policy undermined farmers' sense of initiative.

About 10 years ago, the rural reform began. Beijing contracted land to individual households in 1982, and it was initially successful in stimulating farmers initiative and the city's agricultural production.

But with the expansion of rural industries, some farmers have lost interest in sweating away in their plots for profits that are low compared with other businesses.

In Beijing, more than half of the 1.9 million rural labour force have transferred to rural industries, Li said.

As a result, much contracted land has been left fallow or poorly tilled while farmers who are willing to work more land are unable to do so.

Another problem is that contracting land to individuals made farm land too dispersed, thereby greatly hampering the mechanization of agriculture.

Even farmers were unsatisfied. In a recent survey by the Ministry of Agriculture of 3,200 individual farm households, half of the households said the land was too dispersed and should be concentrated.

It was this situation that led to the introduction of large-scale production, land was reconcentrated and then contracted anew to specialized farming households.

The larger size of farms had made it easier to use farm machinery and has thus accelerated the mechanization of agriculture. In Shunyi County, for instance, farmers were encouraged to invest 260 million yuan (about \$70 million) on farm machinery, a figure that exceeds all they had invested in the 30 years following Liberation, Li said.

The new measures have also liberated the labour force. Those unwilling to farm can now turn to something else.

At the same time, those who stay in farming are more interested in their land. Specialized farmers in Beijing work an average of 20 mu (15 mu equals one hectare), many times the land that was contracted to individuals. Their incomes now exceed slightly those of people in rural industries.

But large-scale production can only be practised where more than 60 percent of the labour force is engaged in other lines of business, the area is well-developed and most people are willing to go along with the system. It is also limited to areas that are flat and open, said Li.

Inner Mongolian Sheep Exports, Grain Harvest
OW0411032288 Beijing XINHUA in English
1512 GMT 3 Nov 88

[Text] The Inner Mongolia Autonomous Region in north China have exported 9.5 million U.S. dollars worth of live sheep to Kuwait in the past 6 years. By the end of October the region had exported 40,000 sheep to Kuwait this year.

The Inner Mongolia Autonomous Region harvested 7.4 million tons of grain this year, an increase of over 20 percent or 1.3 million tons over last year.

Jiangsu Silkworm Cocoons
OW0411021088 Beijing XINHUA in English
1528 GMT 3 Nov 88

[Text] Jiangsu Province, one of China's leading silkworm cocoon producers, has turned out 89 million kg of silkworm cocoons so far this year, a 13.2 percent increase over last year.

Jilin Allocates Grain To Support Stricken Southern Areas
SK1211045788 Changchun Provincial Service
in Mandarin 2200 GMT 8 Nov 88

[Text] The task of transporting Jilin's corn to the disaster-stricken areas in the south is heavy since time is pressing. The grain allocation coordination group under the State Council came to our province to handle the work on the spot on 8 November.

Our province again reaped a bumper grain harvest this year. So the task of delivering and exporting grain to other areas is extremely heavy. The State Council has

paid full attention to transporting our province's corn to other areas. Last year, the State Council set up a group in charge of transporting Jilin's corn to other localities. This year, the State Council held several meetings to study and coordinate the corn transportation work. Leading Comrades Li Peng and Tian Jiyun gave important instructions on this work.

The grain allocation work conference sponsored in Qinhuaogdao on 22 October defined that in the last two months of this year, 1.19 million tons of corn should be allocated from our province. Of this, 790,000 tons of corn are to be allocated to other provinces and 400,000 tons are to be exported to foreign countries. To fulfill this task, 20,000 tons of corn should be allocated from our province every day, and more than 360 railway cars should be loaded with corn every day.

The grain allocation coordination group under the State Council held an on-the-spot meeting in Changchun on 8 November to relay the instructions given by leaders of the State Council and to hear the report on our province's grain allocation and transportation work.

The meeting emphatically pointed out: The disaster-stricken provinces and regions in the south, including Guangxi and Nanjing, are in urgent need of grain. So we should give priority to providing relief to the disaster-stricken areas in the south, regard it as a political task, and strive to fulfill it. Simultaneously, we should continue to fulfill the grain export tasks. The unplanned allocation of grain at negotiated prices should be stopped in a timely manner.

The meeting also made coordinated and specific arrangements for road, railway, and sea transportation work.

Responsible comrades of relevant departments under the State Council and our province pledged to fulfill the corn allocation tasks.

At the meeting, Vice Provincial Governor Gao Wen introduced to the grain allocation group our province's agricultural production, grain marketing and storage and our corn allocation and export work; and thanked the grain allocation group for its support for our province's corn allocation and transportation work, and the railway and transportation departments for their close cooperation and assistance.

Gao Wen stated: Supporting the brotherly disaster-stricken provinces and regions is our honored duty-bound task. We should send the amounts of grain according to the state-assigned quotas and ensure the fulfillment of the task of grain allocation.

He hoped that in arranging the task of allocating grain to other provinces, the grain allocation group would make good arrangements for our province's corn export tasks.

On the afternoon of 8 November, the grain allocation group also investigated Gongzhuling City's (Sanjiatun) grain storage.

Grain Prices Increase 18.5 Percent

HK0711123388 Beijing CEI Database in English
7 Nov 88

[Text] Beijing (CEI)—The prices of grain in China increased by 18.5 percent during August-September period, according to the Planning Department of the Ministry of Agriculture here.

Rice was sold at 63.62 yuan for every 50 kg, wheat 40.4 yuan and maize 30.48 yuan, representing increases of 12.72 percent, 5.79 percent and 7.55 percent respectively.

Meanwhile, pork price went up slightly in September after a 10.87 percent jump in August. The present price for every 50 kg is 207.8 yuan, a 4.53 increase over August.

In September, piglet prices dropped 10.62 percent as compared with the previous month, selling at 7.24 per kg on the market.

Results of Grain Production Predicted

OW1011043988 Beijing XINHUA in English
1547 GMT 8 Nov 88

[Text] Beijing, November 8 (XINHUA)—The total grain output of 15 provinces, municipalities and autonomous regions in northern China is expected to reach about 167.4 million tons this year, a 0.6 percent drop from last year, according to the State Statistics Bureau.

Nevertheless, the grain output in 10 of those areas is expected to increase this year.

The slight drop is mainly attributed to the decreased acreage of farmland for grain production, the statistics show. A total of 1.3 million hectares of cropland in these areas was shifted to the production of cash crops or other non-grain crops this year.

The average grain output per hectare in these areas is estimated to increase by 57 kg, or 1.8 percent, over last year, according to surveys conducted in Beijing and Tianjin Municipalities, Hebei, Shanxi, Liaoning, Jilin, Heilongjiang, Shandong, Henan, Shaanxi, Gansu and Qinghai Provinces, and the Inner Mongolia, Ningxi Hui and Xinjiang Uygur Autonomous Regions.

World Bank Loan Helps Improve Liaoning Water
OW1011021688 Beijing XINHUA in English
1620 GMT 8 Nov 88

[Text] Shenyang, November 8 (XINHUA)—Thanks to a loan from the World Bank, many rural inhabitants in northeast China's Liaoning Province now are able to have cleaner drinking water.

A provincial official supervising the use of the free-of-interest loan believed that over 800,000 people are beneficiaries of the project.

He cited the case of Xinmin Village, Gonggou County, where 2,200 villagers used to have to fetch water from sources four km away. With part of the loan they have built a reservoir with a water-purification system.

"We have used the loan for projects in five counties and helped 830,000 rural residents obtain more sanitary water," said the official.

Since 1985 the World Bank has granted China 80 million U.S. dollars in loans for such projects in four provinces and rural areas administered by the Beijing Municipality. The loan will be paid back over 30 years.

The official estimated that the whole project will be completed in Liaoning by the end of 1990, when 435 waterworks will have been built providing clean water for 1.25 million residents of 719 villages.

"So far, we have already built 266 waterworks providing running water for 481 villages," he said.

CENTRAL-SOUTH REGION

Major Case of Cigarette Smuggling Uncovered in Hainan

OW0711010088 Beijing XINHUA in English
1515 GMT 6 Nov 88

[Text] Haikou, November 6 (XINHUA)—The Public Security Department of Hainan Province exposed Thursday a major case involving smuggling of imported cigarettes.

The cigarettes were loaded on four trucks, valued at more than two million yuan, and were seized on the spot, officials from the department told XINHUA.

Twenty people are accused of being involved in the case. The cigarettes were smuggled into Hainan Island via Guangdong Province, said the officials.

SOUTHWEST REGION

Center for Reporting Economic Crimes Set Up in Lhasa

40050101 Lhasa XIZANG RIBAO in Chinese
6 Sep 88 p 4

[Announcement by the Lhasa City "Center for Reporting Economic Crimes and Violations of Law and Discipline"]

[Text] I. To adapt to the new situation in the current reform and opening up to the outside, to give better play to the law-monitoring function of procuratorial organs, to fully arouse the broad masses of people to timely expose crimes, to firmly crack down on criminals who commit economic crimes or violate law and discipline, and to better maintain the honesty of party and government organizations, in line with the provisions in Article Three of the "Organizational Law of the People's Procuratorate of the People's Republic of China," and by the study and decision of the Lhasa City People's Procuratorate Committee, the Lhasa City Center for Reporting Cases of Economic Crimes and Violations of Law and Discipline has formally been established in the Lhasa City Procuratorate.

II. The Reporting Center is a component part of the Lhasa City Procuratorate. Its main mission is to mobilize and rely on the broad masses of people in vigorously supporting and promoting the reporting by the party and the city of cases of economic crimes and violations of law and discipline.

III. In line with the provisions of Section Two, Article Three, of "The Criminal Procedural Law of the People's Republic of China" and the NPC Standing Committee's "Supplementary Regulations on the Punishment of Graft and Bribery," the Reporting Center mainly accepts reports on the following cases that come under the jurisdiction of the procuratorial organs:

1. graft; 2. bribery; 3. misuse of public funds and unlawful obtaining of income by state working personnel; 4. evasion of taxes and refusal to pay taxes; 5. imitation of trade marks; 6. dereliction of duty; 7. unlawful taking into custody; 8. extortion of confessions by torture; 9. making of vindictive and false charges; 10. divulgence of important state secrets; and 11. the secret opening, hiding, or destruction of mail and telegrams, and other criminal cases that come under the jurisdiction of the procuratorial organs.

The Reporting Center also accepts voluntary surrenders and confessions by persons who have committed economic crimes or who have violated law or discipline.

IV. Citizens may report to the Center for Reporting Economic Crimes and Violations of Law and Discipline by letter, in person, or by telephone.

V. The Reporting Center will provide legal protection to citizens who report. It is strictly prohibited to strike back in retaliation at persons who report. It is strictly forbidden to reveal the contents of a report, in any form, to the person or unit on which the report is made. The reporting person's name, address, and the contents of his report will be kept in strict secrecy.

VI. A person who renders meritorious service by his report will be given a reward in line with the nature of the case and the size of the economic loss recovered.

VII. Once enterprise units, organizations and groups, or citizens discover the facts about economic crimes and violations of law and discipline and the person or persons suspected, they must not "substitute penalties for punishment" and must not privately handle the cases themselves.

VIII. The person making a report must seek truth from facts, write down clearly the name and unit of the informer, and list the basic facts and evidence on the crime. He must not lodge a false accusation; if he does he bears the legal responsibility for making a false accusation.

IX. A criminal who commits an economic crime or violates law and discipline should take the initiative to turn himself in and confess to the authorities and strive to get leniency; otherwise, he will be severely punished.

X. The Reporting Center is located in the City People's Procuratorate on Yanhe Road in Lhasa City. It is open from 10 am to 10 pm.

Telephone: 23470

Special Announcement

31 August 1988

Sun Micro Launches 'Tops' in Hong Kong
*53400025 Hong Kong SOUTH CHINA MORNING
POST (Business Supplement) in English 1 Nov 88 p 6*

[Article by Susan Bigelow]

[Text] Sun Microsystems is launching its two-year-old, highly successful Tops local area networking software in Asia and will introduce with it an electronic mail package as a primary motivation for buying the network, according to Asia managing director, Neil Mathison.

Agreements have been signed with one of the largest microcomputer distributors in Asia, SIS International for distribution in Hongkong, China, Singapore, Malaysia and the Philippines, and with Hyundai for the Korean market.

A formal launch for customers will take place within the next two to three months, the strategy being to garner a share of the low-end, personal computer market with a software system that allows computers to talk to each other.

Tops is an improvement on previous "networking" systems because it allows direct communication with other computers in-house, while other systems like Apple Share only allow for the sharing of software files.

Tops vice president and general manager, Rich Shapero, says the key to the personal computer market these days is open network computing, whereby all systems can communicate with each other, regardless of brand name.

"It is what the user wants ultimately, and the best way to be successful as a vendor," he said. "Unlike our competitors, Digital Equipment, IBM and Apple, we want to be able to tie in."

"In the Asia market there are a lot of disparate machines," said Sun director of marketing for Asia, Bruce Golden. While local companies have spent a great deal of money on computer systems, according to Mr Golden they have yet to link them up because of the complexity and expense of doing so.

Whereas in the past, networking has required installation of a separate computer and the expertise of an engineering team, Tops can be installed by anyone familiar with a personal computer, with the insertion of a disc and the extension of a simple phone cable from one unit to the next.

Without the E-mail package, the Tops unit will retail locally (street value) for about U.S.\$150 for installation with the Apple MacIntosh for example, and about \$300 with the IBM PC because of the need for additional hardware with that unit.

The E-mail software, called InBox, will initially be introduced as a separate product, to be combined with Tops as a single product next June. InBox currently retails in the U.S. at \$249. Tops is a wholly-owned subsidiary of Sun, acquired in April 1987.

"We think we're going to surprise a lot of people as a PC software distribution kind of company," said Mr Mathison, adding that there had been an initial lack of awareness in Asia of Sun Microsystems, currently one of the fastest growing computer companies in the world.

Sun has already announced in the United States its intention to design and develop a personal computer for the low-end market with many of the sophisticated graphics and multi-tasking functions characteristic of the powerful desktop workstations for which it is known.

The 12th largest computer company in the U.S., Sun made its name in just six years in the burgeoning market for workstations—powerful desktop computers which allow a user to perform a range of functions and tap information from a variety of sources all at once.

Worldwide sales, primarily to the technical services industry, for the last fiscal year ending in June totalled almost \$1 billion, according to the company.

According to Mr Mathison, sales in this region have grown 300 percent since the company established its Hongkong headquarters in December last year. He estimated a market share in Asia for Sun Workstations at between 30 and 60 percent.

Rich Shapero said Sun's marketing of Tops would firmly establish it as a supplier of networking technology in the microcomputer market.

Meanwhile, Altos Computer Systems (Far East), a subsidiary of Altos Computer Systems, USA, has introduced its Local Area Network Telecommunications Systems called AdLANtes to Hongkong.

Unlike, the Tops system which aims at the low-end PC user, AdLANtes is aimed at the professionals in commercial information systems.

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